# Northern Superior Resources Inc.

## Condensed Interim Financial Statements

**(Expressed in Canadian dollars)**

**For the three and nine months ended September 30, 2012 and 2011**

**(Unaudited)**

**Notice to Reader:**

These unaudited condensed interim financial statements of Northern Superior Resources Inc. have been prepared by management and reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed interim financial statements, notes to financial statements and the related quarterly Management Discussion and Analysis.

## Northern Superior Resources Inc.
### (Expressed in Canadian dollars - Unaudited)

## Condensed Interim Statements of Financial Position

| As at | September 30 2012 | December 31 2011 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 10,752,188** | $ 17,094,074 |
| Prepaids and receivables *note 4* | **473,595** | 776,393 |
| | **11,225,783** | 17,870,467 |
| Non-current assets | | |
| Equipment | **41,493** | 5,968 |
| Exploration and evaluation properties *note 5* | **28,015,084** | 22,415,623 |
| | **28,056,577** | 22,421,591 |
| | **$ 39,282,360** | $ 40,292,058 |
| **Liabilities** | | |
| Current | | |
| Trade payables and accrued liabilities *note 6* | **$ 512,745** | $ 793,602 |
| Flow-through share liability *note 6* | **121,253** | 1,300,161 |
| | **633,998** | 2,093,763 |
| **Equity** | | |
| Share capital *note 7* | **62,664,407** | 62,099,111 |
| Stock options reserve *notes 7(c) and 7(d)* | **4,137,646** | 3,545,518 |
| Warrants reserve *note 7(e)* | **-** | 1,608,678 |
| Deficit | **(28,153,691)** | (29,055,012) |
| | **38,648,362** | 38,198,295 |
| | **$ 39,282,360** | $ 40,292,058 |

Nature of operations *note 1*
Commitments *note 12*
Subsequent events *note 14*

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON NOVEMBER 8, 2012

*"Alan C. Moon"* *"Arnold Klassen"*

Director Director

*See accompanying notes to condensed interim financial statements*

## Northern Superior Resources Inc.
### (Expressed in Canadian dollars - Unaudited)

## Condensed Interim Statements of Income (Loss) and Comprehensive Income (Loss)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | ***2012*** | *2011* | **2012** | 2011 |
| Expenses | | | | |
| Consulting fees *note 7(d)* | **83,015** | 97,951 | **$ 210,762** | $ 292,438 |
| Depreciation | **14,826** | 2,544 | **17,810** | 6,791 |
| Legal and accounting | **40,901** | 65,032 | **124,455** | 90,660 |
| Office expense *note 7(d)* | **295,651** | 337,290 | **924,112** | 930,405 |
| Shareholder information | **43,741** | 84,591 | **315,805** | 434,820 |
| Travel | **11,205** | 36,075 | **50,915** | 69,986 |
| Loss before the undernoted | **(489,339)** | (623,483) | **(1,643,859)** | (1,825,100) |
| Interest income | **34,335** | 65,898 | **118,035** | 191,650 |
| Gain on sale of available-for-sale investments | **-** | - | **-** | 37,500 |
| Capital taxes | **-** | (118) | **-** | (7,399) |
| Flow-through share income *note 6* | **453,155** | 870,706 | **1,178,908** | 1,453,176 |
| Flow-through share interest expense | **(1,894)** | - | **(9,023)** | - |
| Writedown of exploration properties *note 5* | **(4,795)** | - | **(351,418)** | - |
| Net income (loss) for the period | **$ (8,538)** | $ 313,003 | **$ (707,357)** | $ (150,173) |
| Other comprehensive income (loss) | | | | |
| Reclassification of gains on available-for-sale investments | **-** | - | **-** | (37,500) |
| Comprehensive income (loss) for the period | **$ (8,538)** | $ 313,003 | **$ (707,357)** | $ (187,673) |
| Net income (loss) per share - basic and diluted | | | | |
| Basic | **$ 0.00** | $ 0.00 | **$ (0.01)** | $ (0.00) |
| Diluted | **$ 0.00** | $ 0.00 | **$ (0.01)** | $ (0.00) |
| Weighted-average number of shares outstanding | | | | |
| Basic | **185,660,211** | 182,133,114 | **186,548,818** | 178,065,567 |
| Diluted | **185,660,211** | 185,567,532 | **186,548,818** | 178,065,567 |

*See accompanying notes to condensed interim financial statements*

## Northern Superior Resources Inc.
**(Expressed in Canadian dollars - Unaudited)**

## Condensed Interim Statements of Equity

| | Share Capital | | Reserves | | | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Stock options | Warrants | Available-for-sale investments | Deficit | Total Equity |
| **Balance, December 31, 2010** | **156,611,458** | **$ 46,183,099** | **$ 2,844,369** | **$ 1,242,686** | **$ 37,500** | **$ (25,342,823)** | **$ 24,964,831** |
| Common shares issued for cash *note 7(b)* | 20,619,658 | 19,137,820 | - | - | - | - | 19,137,820 |
| Common shares issued on exercise of stock options *note 7(b)* | 920,998 | 311,991 | (129,736) | - | - | - | 182,255 |
| Common shares issued on exercise of warrants *note 7(b)* | 5,600,000 | 1,179,305 | - | (70,105) | - | - | 1,109,200 |
| Common shares issued on exercise of compensation options *note 7(b)* | 131,000 | 19,394 | - | (3,674) | - | - | 15,720 |
| Flow-through share liability *notes 6 and 7(b)* | - | (3,185,897) | - | - | - | - | (3,185,897) |
| Share-based payments *note 7(d)* | - | - | 642,394 | - | - | - | 642,394 |
| Share issue costs | - | (1,853,897) | - | 461,664 | - | - | (1,392,233) |
| Reclassification of gain on available-for-sale investments | - | - | - | - | (37,500) | - | (37,500) |
| Net loss for the period | - | - | - | - | - | (150,173) | (150,173) |
| **Balance, September 30, 2011** | **183,883,114** | **$ 61,791,815** | **$ 3,357,027** | **$ 1,630,571** | **$ -** | **$ (25,492,996)** | **$ 41,286,417** |
| Common shares issued for exploration and evaluation property *note 7(b)* | 750,000 | 172,500 | - | - | - | - | 172,500 |
| Common shares issued on exercise of stock options *note 7(b)* | 213,334 | 31,741 | (8,891) | - | - | - | 22,850 |
| Common shares issued on exercise of compensation options *note 7(b)* | 676,350 | 103,055 | - | (21,893) | - | - | 81,162 |
| Share-based payments *note 7(d)* | - | - | 197,382 | - | - | - | 197,382 |
| Net loss for the period | - | - | - | - | - | (3,562,016) | (3,562,016) |
| **Balance, December 31, 2011** | **185,522,798** | **$ 62,099,111** | **$ 3,545,518** | **$ 1,608,678** | **$ -** | **$ (29,055,012)** | **$ 38,198,295** |
| Common shares issued for exploration and evaluation property *note 7(b)* | 200,000 | $ 38,000 | $ - | $ - | $ - | $ - | 38,000 |
| Common shares issued for cash note 7(b) | 2,631,579 | 500,000 | - | - | - | - | 500,000 |
| Common shares issued on exercise of stock options *note 7(b)* | 146,666 | 27,296 | (10,896) | - | - | - | 16,400 |
| Share-based payments *note 7(d)* | - | - | 603,024 | - | - | - | 603,024 |
| Reclassification of fair value of expired warrants *note 7(e)* | - | - | - | (1,608,678) | - | 1,608,678 | - |
| Net loss for the period | - | - | - | - | - | (707,357) | (707,357) |
| **Balance, September 30, 2012** | **188,501,043** | **$ 62,664,407** | **$ 4,137,646** | **$ -** | **$ -** | **$ (28,153,691)** | **$ 38,648,362** |

*See accompanying notes to condensed interim financial statements*

## Northern Superior Resources Inc.
### (Expressed in Canadian dollars - Unaudited)

## Condensed Interim Statements of Cash Flows

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | ***2012*** | *2011* | **2012** | *2011* |
| **Operating Activities** | | | | |
| Net income (loss) for the period | **$ (8,538)** | $ 313,003 | **$ (707,357)** | $ (150,173) |
| Items not involving cash | | | | |
| Flow-through share income *note 6* | **(453,155)** | (870,706) | **(1,178,908)** | (1,453,176) |
| Depreciation | **14,826** | 2,544 | **17,810** | 6,791 |
| Gain on sale of available-for-sale investments | **-** | - | **-** | (37,500) |
| Share-based payments *note 7(d)* | **106,505** | 131,593 | **322,670** | 385,075 |
| Wrtie-off of exploration properties | **4,795** | - | **351,418** | - |
| Change in non-cash operating working capital items: | | | | |
| Decrease (increase) in prepaids and receivables | **(188,422)** | (111,638) | **76,814** | (264,697) |
| Decrease in trade payables and accrued liabilities | **(49,781)** | (84,830) | **(136,177)** | (23,554) |
| Cash used in operating activities | **(573,770)** | (620,034) | **(1,253,730)** | (1,537,234) |
| **Investing Activities** | | | | |
| Exploration and evaluation expenditures | **(1,392,821)** | (2,264,561) | **(5,855,134)** | (4,423,948) |
| Recovery of exploration and evaluation expenditures | **47,819** | 54,482 | **303,913** | 1,354,482 |
| Additions to equipment | **(53,335)** | - | **(53,335)** | - |
| Proceeds from sale of investment | **-** | - | **-** | 45,000 |
| Cash used in investing activities | **(1,398,337)** | (2,210,079) | **(5,604,556)** | (3,024,466) |
| **Financing Activities** | | | | |
| Proceeds from exercise of stock options | **-** | - | **16,400** | 182,255 |
| Proceeds from exercise of compensation options | **-** | - | **-** | 15,720 |
| Proceeds from exercise of warrants | **-** | 1,100,000 | **-** | 1,109,200 |
| Proceeds from private placements, net of share issue costs | **500,000** | 500,000 | **500,000** | 17,745,587 |
| Cash provided by financing activities | **500,000** | 1,600,000 | **516,400** | 19,052,762 |
| Increase (decrease) in cash during the period | **(1,472,107)** | (1,230,113) | **(6,341,886)** | 14,491,062 |
| Cash, beginning of period | **12,224,295** | 22,429,704 | **17,094,074** | 6,708,529 |
| Cash, end of period | **$ 10,752,188** | $ 21,199,591 | **$ 10,752,188** | $ 21,199,591 |

*See accompanying notes to condensed interim financial statements*

## 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Northern Superior Resources Inc. ("Northern Superior" or the "Company") is an exploration stage junior mining company engaged in the identification, acquisition, evaluation and exploration of gold properties in Ontario and Quebec. The Company has not determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and attaining future profitable production from the properties or proceeds from disposition.

The Company is dependent on raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake further exploration and development of its mineral properties. Management believes that financing is available and may be sourced in time to allow the Company to continue its current planned activities in the normal course.

The head office, principal address and registered and records office of the Company is 1351C Kelly Lake Road, Unit 7, Sudbury, Ontario, Canada, P3E 5P5.

## 2. BASIS OF PREPARATION

### a) Statement of Compliance

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and effective for the period ended September 30, 2012.

### b) Approval of Financial Statements

The unaudited condensed interim financial statements of Northern Superior Resources Inc. for the nine months ended September 30, 2012 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on November 8, 2012.

### c) Adoption of New and Revised Standards and Interpretations

The IASB issued a number of new and revised IAS, IFRS, amendments and related interpretations which are effective for the Company's financial years beginning on or after January 1, 2012. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all of these new standards for the relevant reporting periods.

At the date of authorization of these condensed interim financial statements, the IASB and IFRS Interpretations Committee ("IFRIC") have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- IFRS 9, *Financial Instruments: Classification and Measurement* – effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

- IFRS 10, *Consolidated Financial Statements* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

- IFRS 11, *Joint Arrangements* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.

- IFRS 12, *Disclosure of Interests in Other Entities* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

- IFRS 13, *Fair Value Measurement* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

- IAS 1, (Amendment) *Presentation of Financial Statements* – effective for annual periods beginning on or after July 1, 2012, includes amendments regarding presentation of items of other comprehensive income.

- IAS 19, (Amendment) *Employee Benefits* – effective for annual periods beginning on or after January 1, 2013, revises recognition and measurement of post-employment benefits.

- IAS 27, (Amendment) *Separate Financial Statements*– effective for annual periods beginning on or after January 1, 2013, prescribes the accounting for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

- IAS 28, (Amendment) *Investments in Associates and Joint Ventures* – effective for annual periods beginning on or after January 1, 2013, prescribes the accounting for investments in associates and sets out the requirements for investments in associates and joint ventures.

- IFRIC 20, *Stripping Costs in the Production Phase of a Producing Mine* – effective for annual periods beginning on or after January 1, 2013, prescribes the accounting for stripping costs in the production of a surface mine.

The Company has not early adopted these standards, amendments and interpretations; however, the Company is currently assessing the impact of these standards or amendments on the financial statements of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's annual financial statements for the year ended December 31, 2011.

The preparation of these unaudited financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates where management's judgment is applied include asset valuation, asset retirement obligations, income taxes, contingent liabilities, share-based payments and ability to continue as a going concern. Actual results may differ from those estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and further periods if the review affects both current and future periods.

(Expressed in Canadian dollars)

The critical judgments and estimates applied in the preparation of the Company's unaudited condensed interim financial statements are consistent with those applied and disclosed in note 3(m) to the Company's financial statements for the year ended December 31, 2012. The Company's interim results are not necessarily indicative of its results for a full year.

## 4. PREPAIDS AND RECEIVABLES

Prepaids and receivables consist of the following:

| *As at* | **September 30, 2012** | December 31, 2011 |
|---|---|---|
| Government refundable tax credits | **$ -** | $ 48,456 |
| Due from joint venture partners | **6,778** | 184,306 |
| Sales tax receivable - net | **289,079** | 348,936 |
| Prepaid expenses | **55,786** | 22,722 |
| Interest receivable | **75,703** | 171,973 |
| Other receivables | **46,249** | - |
| Total | **$ 473,595** | $ 776,393 |

(Expressed in Canadian dollars)

## 5. EXPLORATION AND EVALUATION PROPERTIES

*For nine months ended September 30, 2012*

| | Ti-pa-haa-kaa-ning | New Growth | Meston Lake | Rapson Bay | Croteau Est | Waconichi | Wachigabau | Other[1] | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance, beginning of year | $ 11,500,660 | $ 1,058,270 | $ 1,623,338 | $ 3,190,097 | $ 977,188 | $ - | $ 998,389 | $ 3,067,681 | $ 22,415,623 |
| Acquisition, assessment and maintenance | 2,036 | 1,097 | 385 | 224 | 36,150 | 68,000 | 9,879 | 72,007 | 189,778 |
| Analytical | - | 97,763 | 522 | 11,549 | 467,315 | 25,815 | 108 | 12,254 | 615,326 |
| Geophysics | - | 566,724 | 24 | - | 241,877 | - | - | (4,330) | 804,295 |
| Geology | 5,927 | 48,167 | 15,717 | 36,804 | 939,997 | 136,920 | 2,090 | 38,807 | 1,224,429 |
| Drilling | - | 1,466,621 | - | 20,400 | 1,325,984 | - | 10,556 | 25,445 | 2,849,006 |
| Research | - | 23,785 | 198 | 21,771 | 3,591 | - | - | 2,324 | 51,669 |
| Project administration | 14,735 | 37,001 | 8,357 | 15,735 | 177,615 | 4,494 | 9,924 | 25,992 | 293,853 |
| Cost recoveries[2] | - | - | - | - | - | - | (6,635) | (70,842) | (77,477) |
| Write-off of exploration and evaluation properties | - | - | - | - | - | - | - | (351,418) | (351,418) |
| **Balance, end of period** | **$ 11,523,358** | **$ 3,299,428** | **$ 1,648,541** | **$ 3,296,580** | **$ 4,169,717** | **$ 235,229** | **$ 1,024,311** | **$ 2,817,920** | **$ 28,015,084** |

*(1) Consists of Lac Surprise ($1,136,732), Thorne Lake ($1,048,482) and Lamark Creek ($632,706) as at September 30, 2012.*

*(2) The Company recorded cost recoveries of $6,635 and $70,842 from Matamec Explorations Inc. and Paget Minerals Corp., respectively.*

**(Expressed in Canadian dollars)**

*For year ended December 31, 2011*

| | Ti-pa-haa-kaa-ning | New Growth | Meston Lake | Rapson Bay | Croteau Est | Waconichi | Wachigabau | Other[1] | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance, beginning of year | $ 12,719,498 | $ - | $ 52,151 | $ 140,539 | $ - | $ - | $ 1,740,511 | $ 3,387,729 | $ 18,040,428 |
| Acquisition, assessment and maintenance[2] | 4,993 | 21,212 | 230,146 | 257,245 | 46,984 | - | 14,699 | 731,628 | 1,306,907 |
| Analytical | - | 35,110 | 58,089 | 42,346 | 55,028 | - | 11,323 | 97,029 | 298,925 |
| Geophysics | - | 174,577 | 355,454 | 404,512 | 184,236 | - | 31,095 | 277,618 | 1,427,492 |
| Geology | 3,435 | 607,747 | 862,682 | 681,780 | 336,008 | - | 97,318 | 330,939 | 2,919,909 |
| Drilling | 1,083 | 2,568 | 5,198 | 1,585,696 | 308,658 | - | 247,373 | 554,187 | 2,704,763 |
| Research | 13,184 | 139,642 | 20,909 | 25,335 | - | - | 10,278 | 2,800 | 212,148 |
| Project administration | 58,467 | 77,414 | 38,709 | 52,644 | 46,274 | - | 40,452 | 91,981 | 405,941 |
| Sale of exploration and evaluation property interests[3] | (1,300,000) | - | - | - | - | - | - | - | (1,300,000) |
| Cost recoveries[4] | - | - | - | - | - | - | (247,222) | (142,180) | (389,402) |
| Write-off of exploration and evaluation properties | - | - | - | - | - | - | (956,958) | (2,261,686) | (3,218,644) |
| Tax credit adjustments | - | - | - | - | - | - | 9,520 | (2,364) | 7,156 |
| Balance, end of year | $ 11,500,660 | $ 1,058,270 | $ 1,623,338 | $ 3,190,097 | $ 977,188 | $ - | $ 998,389 | $ 3,067,681 | $ 22,415,623 |

*(1) Includes Lac Surprise ($1,150,134), Thorne Lake ($1,041,718) and Other ($875,829) as at December 31, 2011.*
*(2) Includes Thorne Lake non-cash acquisition costs of $172,500 (deemed value of shares issued) (note 7(b)).*
*(3) The Company received $1,300,000 cash for the sale of exploration and evaluation property interests to Rainy River Resources Ltd.*
*(4) The Company recorded cost recoveries of $247,222, $12,999 and $129,181 from Matamec Explorations Inc., INV Metals Inc. and Paget Minerals Corp., respectively.*

*Ti-pa-haa-kaa-ning ("TPK") property*

TPK Option / Joint Venture Agreement with Rainy River Resources Ltd. ("Rainy River")

On June 18, 2010, the Company entered into an agreement whereby Rainy River was granted an option to earn a 51% joint venture interest in the eastern half of the TPK project. Rainy River can earn its 51% interest in the eastern half of the TPK Property by (a) funding $9,400,000 in exploration expenses over a 3 year period, with $1,400,000 in Year 1 ending April 30, 2011 (incurred), $4,000,000 in Year 2 ending April 30, 2012 (incurred), and $4,000,000 in Year 3 ending April 30, 2013; (b) making cash payments of $300,000 upon receipt of regulatory acceptance (paid) and a further $1,300,000 in January 2011 (paid) and (c) completing three equal annual private placements of common shares of the Company of $500,000 each for a total equity investment of $1,500,000. The first placement of $500,000, at $0.20 per share, was completed on September 9, 2010; the second placement of $500,000, at $0.36 per share, was completed on July 8, 2011 (note 7(b)) and the third placement was completed on July 10, 2012 at a price of $0.19 per share (note 7(b)).

Under the terms of the agreement, Rainy River has the right to accelerate expenditures to exercise its option early. Rainy River has the right to terminate the option at any time after completing its Year 1 obligations. If Rainy River exercises its option, the parties have agreed to form a joint venture, with Rainy River holding a 51% interest and the Company 49%. Rainy River is the manager of the exploration program for the term of the agreement.

The Company also granted to Rainy River rights of first refusal with respect to both the Company's interest in the eastern half of the TPK property and its 100% interest in the western half of the TPK Property (known as the "New Growth" area) should the Company receive acceptable bona fide arms' length third party offers.

*New Growth property*

The New Growth property is 100% owned by the Company. The New Growth property area originally represented the western half of the TPK property, however this area was excluded from the agreement with Rainy River and is now being explored and accounted for separately by the Company.

The Company incurred expenditures of $2,241,158 on the property during the nine months ended September 30, 2012 (2011 - $627,677).

*Meston Lake property*

The Meston Lake property is 100% owned by the Company, and consists of 84 claims covering 19,688 hectares in northwestern Ontario. The Company incurred expenditures of $25,203 on the property during the nine months ended September 30, 2012 (2011 - $1,449,222).

*Rapson Bay property*

The Rapson Bay property is 100% owned by the Company, and consists of 111 claims covering 26,135 hectares in northwestern Ontario. The Company incurred expenditures of $106,483 on the property during the nine months ended September 30, 2012 (2011 - $1,419,190).

*Croteau Est property*

On August 24, 2011, the Company entered into an option agreement with the owners (the "Optionors") of the Croteau Est gold property in Quebec who granted the Company an option to acquire 100% of the property. To exercise the option the Company is required to spend $1.7 million on exploration on the property over four years: $200,000 in year 1, $300,000 in year 2, $400,000 in year 3 and $800,000 in year 4, all of which has already been incurred. The Company must also make cash payments to the Optionors totaling $350,000: $35,000 upon signing the letter of intent (paid), $35,000 by the end of year 1 (paid), $40,000 by the end of year 2, $80,000 by the end of year 3 and $160,000 by the end of year 4. In addition, the Company must issue to the Optionors, $280,000 worth of common shares of the Company: $40,000 at the end of year 2, $80,000 by the end of year 3 and $160,000 by the end of year 4. The number of common shares issuable shall be based on the market price of the Company's shares at the time of issuance. Upon exercise of the option, the Optionors shall retain a 1.0% NSR on any commercial production with the Company having the right to buyback 0.5% of the NSR for $1.5 million, at any time.

The Company incurred expenditures of $3,192,529 on the property during the nine months ended September 30, 2012 (2011 - $369,279).

*Waconichi property*

On June 5, 2012, the Company entered into an option agreement with Murgor Resources Inc. to acquire 316 claims comprising the 17,226 hectare Waconichi property in the Province of Quebec. The agreement was completed on July 10, 2012. Under the terms of the agreement, the Company must make cash payments totaling $140,000 over three years ($30,000 paid at closing), and issue 1,000,000 shares of the Company over three years (200,000 shares issued at closing and valued at $38,000 (note 7(b)). The Company must also spend a total of $1,250,000 of exploration expenditures over three years (Year One: $300,000; Year Two: $350,000; Year Three: $600,000) to keep the agreement in good standing. The Company will be deemed to have earned a 70% undivided interest in the Waconichi property, upon payment of the above funds and shares.

The Waconichi property is contiguous to the northern boundary of the Company's Croteau Est property.

*Wachigabau property*

In 2009, the Company and Matamec Explorations Inc. ("Matamec") signed an option and joint venture agreement (the "Option Agreement"), whereby the Company could earn 50% of all metals and minerals rights (other than diamond rights which the Company earned in before the signing of the Option Agreement) by paying $25,000 (paid), issuing 100,000 shares of the Company (issued) and 100,000 purchase warrants (issued and exercised) and spending $500,000 over a period of three years for exploration of all metals and minerals (except for diamonds). In 2010 the Company fulfilled all earn-in requirements and a 50/50 joint venture was formed between Matamec and the Company. As per the terms of the Options Agreement, the Company and Matamec have a 50/50 interest on all metal and mineral rights, including diamonds on the Wachigabau property.

The Company incurred expenditures of $25,922 on the property during the nine months ended September 30, 2012 (2011 - $67,066).

*Other property write-offs*

During the nine months ended September 30, 2012 the Company reviewed the carrying balances of all of its exploration properties for impairment purposes and wrote-off eleven exploration properties which are no longer being actively pursued by the Company, for an aggregate write-off of $351,418 at September 30, 2012.

(Expressed in Canadian dollars)

## 6. TRADE PAYABLES, ACCRUED LIABILITIES AND FLOW-THROUGH SHARE LIABILITY

| *As at* | | **September 30, 2012** | | December 31, 2011 |
|---|---|---|---|---|
| Trade payables | **$** | **375,557** | $ | 621,860 |
| Amounts due to related parties | | **18,126** | | 4,807 |
| Accrued liabilities | | **119,063** | | 166,935 |
| | **$** | **512,745** | $ | 793,602 |

*Flow-Through Share Liability*

On January 27, 2011, the Company completed a $8,637,820 brokered flow-through private placement consisting of 2,617,521 common shares at a price of $1.10 per share and 4,113,248 common shares at a price of $1.40 per share. This issuance of flow-through shares resulted in a flow-through share liability of $3,185,897 at the date of issue with $121,253 remaining as at September 30, 2012 (December 31, 2011- $1,300,161) (note 7c).

During the nine months ended September 30, 2012, the Company incurred approximately $3,196,123 in qualifying Canadian exploration expenditures in the province of Quebec, resulting in a flow-through share income and a corresponding decrease in flow-through share liability of $1,178,908 on the basis that the Company has the intention of renouncing these qualifying Canadian exploration expenditures to the respective investors.

## 7. SHARE CAPITAL

**a) Authorized:** Unlimited common shares without par value.

**b) Issued Capital**

During the nine months ended September 30, 2012 and the year ended December 31, 2011, changes in issued share capital were as follows:

On July 10, 2012, the Company issued 200,000 shares of the Company at a deemed aggregate share cost of $38,000 in connection with an option agreement to acquire a 70% interest in the Waconichi property in Quebec (note 5).

On July 10, 2012, Rainy River completed its third and final private placement of $500,000 with the Company which is required for Rainy River to maintain its option to earn a 51% interest in the Company's Ti-paa-haa-kaa-ning gold project, north-western, Ontario. The private placement consisted of 2,631,579 shares of the Company issued at a price of $0.19 per share (note 5).

In January 2012, the Company issued 146,666 shares in connection with the exercise of 146,666 stock options, for proceeds of $16,400.

In 2011 the Company issued 5,600,000 shares in connection with the exercise of 5,600,000 warrants, for proceeds of $1,109,200.

In 2011 the Company issued 1,134,332 shares in connection with the exercise of 1,134,332 stock options, for proceeds of $205,105.

In 2011 the Company issued 807,350 shares in connection with the exercise of 807,350 compensation options, for proceeds of $96,882.

(Expressed in Canadian dollars)

On November 16, 2011, the Company completed an agreement to acquire INV's 50% interest in the Thorne Lake property, which included the issuance of 750,000 shares of the Company to INV at a deemed price of $0.23 per share for a total value of $172,500 (note 5).

On July 8, 2011, the Company closed a private placement with Rainy River for 1,388,889 shares of the Company at a price of $0.36 per share for proceeds of $500,000 as part of the TPK option agreement with Rainy River (note 5).

On January 27, 2011, the Company completed a $8,637,820 brokered flow-through private placement consisting of 2,617,521 common shares at a price of $1.10 per share and 4,113,248 common shares at a price of $1.40 per share. This issuance of flow-through shares resulted in a flow-through share liability of $3,185,897 at the date of issue (note 6).

On January 12, 2011, the Company completed a $10,000,000 brokered private placement consisting of 12,500,000 common shares at a price of $0.80 per share.

The Company recorded share issue costs of $1,853,897 in connection with the above two private placements, of which $1,392,233 was paid in cash and $461,664 was the fair value of brokers' compensation options. A total of 1,153,847 compensation options were issued, each compensation option is exercisable into one common share for a period of one year at an exercise price of $0.80 from the date of closing (note 7(e)).

## c) Stock Options

As at September 30, 2012, the Company had 8,626,234 stock options outstanding of which 2,937,893 were exercisable under the Company's stock option plan. The terms of all options cannot exceed ten years and the minimum exercise price cannot be less than the closing price of the Company's common shares on the TSX Venture Exchange on the last trading day preceding the grant of the option. The Board of Directors determines the vesting terms of the options, with a typical vesting schedule of 1/3 of the options under the grant vesting on each anniversary over a three year period after the date of grant.

A summary of the changes in the Company's stock option plan for the nine months ended September 30, 2012 and the year ended December 31, 2011 is as follows:

| | **Nine months ended September 30, 2012** | | Year ended December 31, 2011 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted-average exercise price** | Number of options | Weighted-average exercise price |
| Outstanding, beginning of year | **9,824,568** | **$0.33** | 7,753,900 | $0.33 |
| Granted | **150,000** | **$0.27** | 3,595,000 | $0.26 |
| Expired | **(875,000)** | **$0.47** | (50,000) | $0.50 |
| Exercised | **(146,666)** | **$0.11** | (1,134,332) | $0.18 |
| Forfeited | **(326,668)** | **$0.43** | (340,000) | $0.43 |
| Outstanding, end of period | **8,626,234** | **$0.30** | 9,824,568 | $0.33 |
| Exercisable, end of perioid | **2,937,893** | **$0.28** | 3,986,228 | $0.32 |

A weighted average grant-date fair value of $0.27 (2011-$0.52) for options granted during the nine months ended September 30, 2012 was determined using the Black-Scholes Option Pricing Model using the following assumptions: no dividends are to be paid; volatility of 153.5% (2011 - 150.5%); risk-free interest rate of 1.3% (2011 - 2.3%); and expected life of 5 years.

The following table summarizes information regarding stock options outstanding and exercisable at September 30, 2012:

(Expressed in Canadian dollars)

| Exercise Price Range | Number of Options Outstanding | Remaining Contractual Life (in years) | Weighted Average Exercise Price | Number of Options Exercisable | Remaining Vested Contractual Life (in years) | Weighted Average Vested Excercise Price |
|---|---|---|---|---|---|---|
| $0.10 - $0.19 | 2,241,234 | 1.99 | $0.12 | 1,631,232 | 1.91 | $0.12 |
| $0.20 - $0.39 | 4,085,000 | 3.66 | $0.26 | 540,000 | 0.83 | $0.36 |
| $0.40 - $0.59 | 2,200,000 | 3.11 | $0.55 | 733,329 | 3.11 | $0.55 |
| $0.60 - $0.79 | 100,000 | 3.59 | $0.65 | 33,332 | 3.59 | $0.70 |
| | 8,626,234 | 3.08 | $0.30 | 2,937,893 | 2.15 | $0.28 |

## d) Share-Based Payments

Share-based payments recognized in the period are capitalized to exploration and evaluation properties or expensed as consulting fees and office expense.

The following table summarizes the stock-based compensation expense for stock option grants that the Company recorded for the three and nine months ended September 30, 2012 and 2011:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Consulting fees | **$ 42,515** | $ 71,751 | **$ 132,362** | $ 207,743 |
| Office expense | **63,990** | 59,842 | **190,308** | 177,332 |
| | **106,505** | 131,593 | **322,670** | 385,075 |
| Exploration and evaluation properties | **99,698** | 93,752 | **280,354** | 257,319 |
| Total share-based payments | **$ 206,203** | $ 225,345 | **$ 603,024** | $ 642,394 |

Share-based payments of $280,354 (2011 - $257,319) related to exploration and evaluation properties are capitalized to exploration and evaluation properties and share-based payments of $322,670 (2011 - $385,075) related to consulting fees and office expense were expensed for the nine months ended September 30, 2012.

## e) Warrants and Compensation Options

A summary of the changes in the Company's compensation options for the nine months ended September 30, 2012 and the year ended December 31, 2011 is as follows:

| | Nine months ended September 30, 2012 | | Year ended December 31, 2011 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted-average exercise price** | Number of options | Weighted-average exercise price |
| Outstanding, beginning of year | **1,153,847** | **$0.80** | 807,350 | $0.12 |
| Granted | **-** | **-** | 1,153,847 | $0.80 |
| Expired | **(1,153,847)** | **$0.80** | - | - |
| Exercised | **-** | **-** | (807,350) | $0.12 |
| Outstanding, end of period | **-** | **-** | 1,153,847 | $0.80 |

During the nine months ended September 30, 2012, the Company reclassified the fair value of expired warrants and compensation options in the amount of $1,608,678 from warrants reserve to deficit.

(Expressed in Canadian dollars)

As at September 30, 2012, the Company had no warrants or compensation options outstanding.

## 8. RELATED PARTY TRANSACTIONS

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Management and other fees | **$ 69,085** | $ 50,750 | **$ 177,085** | $ 175,750 |
| Salaries and wages | **257,912** | 119,865 | **702,912** | 337,765 |
| Share-based payments | **116,419** | 175,343 | **358,151** | 417,075 |
| | **$ 443,416** | $ 345,958 | **$ 1,238,148** | $ 930,590 |

All related party transactions are in the normal course of operations and measured at the exchange amount agreed to between the related parties. For the purposes of disclosure, related parties are defined as the officers and directors of the Company.

## 9. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental Cash Flow Information

| | **For three months ended September 30** | | **For nine months ended September 30** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| *Non-cash investing and financing activities* | | | | |
| Transfer of amounts from reserves | **$ -** | $ - | **$ 10,896** | $ 241,553 |
| Warrants and compensation options issued pursuant to private placements | **-** | **-** | **-** | 461,664 |
| Common shares issued pursuant to property agreements | **38,000** | **-** | **38,000** | - |
| Changes in working capital related to exploration properties | **(34,024)** | 268,796 | **81,304** | 422,533 |
| Tax liability related to premium received on flow-through | **-** | - | **-** | 3,185,897 |
| Interest received | **72,276** | 156,842 | **118,035** | 191,650 |
| Interest paid | **-** | - | **-** | - |
| Taxes paid | - | 118 | **-** | 7,399 |

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a) Financial Instruments

The carrying value of financial assets and liabilities at September 30, 2012 and December 31, 2011 are as follows:

(Expressed in Canadian dollars)

| *As at* | | **September 30, 2012** | | December 31, 2011 |
|---|---|---|---|---|
| Financial Assets | | | | |
| *Fair value through profit or loss, measured at fair value* | | | | |
| Cash and cash equivalents | **$** | **10,752,188** | $ | 17,094,074 |
| *Loans and receivables, measured at amortized cost* | | | | |
| Receivables | | **128,730** | | 356,279 |
| Financial Liabilities | | | | |
| *Other liabilities, measured at amortized cost* | | | | |
| Trade payables and due to related parties | **$** | **393,683** | $ | 626,667 |

The fair value hierarchy of financial instruments measured at fair value on the statement of financial position is as follows:

| *As at* | | **September 30, 2012** | | December 31, 2011 |
|---|---|---|---|---|
| | | **Level 1** | | Level 1 |
| Cash and cash equivalents | **$** | **10,752,188** | $ | 17,094,074 |

## b) Management of Financial Risks

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

### i. Credit Risk

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and receivables. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote. The Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

### ii. Liquidity Risk

Liquidity risk is the risk that the company will not be able to meets its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2012, the Company had cash and cash equivalents of $10,752,188 (December 31, 2011 - $17,094,074) to settle trade payables and accrued liabilities totaling $512,745 (December 31, 2011 - $793,602). All of the Company's financial liabilities have contractual maturities of 30 days and are subject to normal trade terms.

### iii. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short term interest rates through the interest earned on cash balances. A 1% change in short term rates would change the interest income and net loss of the Company, assuming that all other variables remained constant, by approximately $144,781 for the nine months ended September 30, 2012.

(Expressed in Canadian dollars)

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant currency or commodity risk arising from financial instruments.

## 11. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it to effectively support the acquisition, exploration and development of mineral properties. In the definition of capital, the Company includes, as disclosed on its statement of financial position: share capital, deficit, equity reserves and cash and cash equivalents.

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 general administrative costs, the Company will be using 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 nine months ended September 30, 2012. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products.

## 12. COMMITMENTS

| | Less than 1 year | 1 - 5 years | 5 or more years | Total |
|---|---|---|---|---|
| Operating lease - office lease | $ 10,931 | $ 211,338 | $ - | **$ 222,269** |

As at September 30, 2012, the Company is committed to incur, on a best efforts basis, approximately $328,112 in qualifying Canadian exploration expenditures in the province of Quebec by December 31, 2012 pursuant to a 2011 flow-through private placement. The original 2011 commitment was $5,758,547, of which approximately $5,430,435 has been incurred at September 30, 2012.

## 13. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment being the mining business in Canada. All resource properties and equipment are situated in Canada.

## 14. SUBSEQUENT EVENTS

There were no reportable events during the period from the nine months ended September 30, 2012 to the date the unaudited condensed interim financial statements were approved and authorized for issue by the Board of Directors on November 8, 2012.