NORTHERN SUPERIOR RESOURCES INC.

(an exploration stage company)

Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2011 and 2010

JAMES STAFFORD

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Independent Auditor's Report

To the Shareholders of Northern Superior Resources Inc.

We have audited the accompanying financial statements of Northern Superior Resources Inc., which comprise the statements of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010, and the statements of loss and comprehensive loss, equity and cash flows for the years ended 31 December 2011 and 31 December 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Northern Superior Resources Inc. as at 31 December 2011, 31 December 2010 and 1 January 2010, and the results of its operations and its cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

James Stafford

Chartered Accountants

Vancouver, Canada
8 March 2012

Northern Superior Resources Inc.
(Expressed in Canadian dollars)

Statements of Financial Position

As at	December 31 2011	December 31 2010 note 18	January 1 2010 note 18
Assets			
Current assets			
Cash and cash equivalents	**$ 17,094,074**	$ 6,708,529	$ 5,066,616
Available-for-sale investments *note 4*	**-**	45,000	-
Prepaids and receivables *note 5*	**776,393**	326,510	368,966
	17,870,467	7,080,039	5,435,582
Non-current assets			
Available-for-sale investments *note 4*	**-**	-	293,625
Receivables *note 5*	**-**	8,113	21,598
Equipment *note 6*	**5,968**	14,251	31,516
Exploration and evaluation properties *note 7*	**22,415,623**	18,040,428	9,624,443
	22,421,591	18,062,792	9,971,182
	$ 40,292,058	$ 25,142,831	$ 15,406,764
Liabilities			
Current			
Trade payables and accrued liabilities *note 8*	**$ 793,602**	$ 178,000	$ 136,402
Flow-through share liability *note 8*	**1,300,161**	-	-
	2,093,763	178,000	136,402
Equity			
Share capital *note 10*	**62,099,111**	46,183,099	35,144,765
Stock options reserve *note 10(f)*	**3,545,518**	2,844,369	2,531,789
Warrants reserve *note 10(f)*	**1,608,678**	1,242,686	1,504,321
Available-for-sale investments reserve *note 4*	**-**	37,500	192,375
Deficit	**(29,055,012)**	(25,342,823)	(24,102,888)
	38,198,295	24,964,831	15,270,362
	$ 40,292,058	$ 25,142,831	$ 15,406,764

Nature of operations *note 1*
Commitments *note 15*
Subsequent events *note 19*

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

"Alan C. Moon" "Arnold Klassen"

Director Director

See accompanying notes to financial statements

Northern Superior Resources Inc.
(Expressed in Canadian dollars)

Statements of Loss and Comprehensive Loss

Years ended December 31,	***2011***	2010
		note 18
Expenses		
Consulting fees *note 10(d)*	**$ 373,879**	$ 199,121
Depreciation *notes 6 and 7*	**8,283**	1,950
Interest	**-**	369
Legal and accounting	**151,478**	98,697
Office expense *note 10(d)*	**1,432,964**	819,944
Shareholder information	**614,423**	329,875
Travel	**76,488**	41,159
Loss before the undernoted	**(2,657,515)**	(1,491,115)
Interest income	**248,132**	23,549
Capital taxes	**(7,398)**	-
Gain on sale of available-for-sale investments *note 4*	**37,500**	257,263
Flow-through share income *note 8*	**1,885,736**	-
Flow-through share interest expense	**-**	(29,632)
Write-off of exploration and evaluation properties *note 7*	**(3,218,644)**	-
Net loss for the year	**$(3,712,189)**	$ (1,239,935)
Other comprehensive income (loss)		
Unrealized gain on available-for-sale investments *note 4*	**-**	102,388
Reclassification of gains on available-for-sale investments included in net income	**(37,500)**	(257,263)
Comprehensive loss for the year	**$(3,749,689)**	$ (1,394,810)
Net loss per share - basic and diluted		
Basic	**$ (0.02)**	$ (0.01)
Diluted	**$ (0.02)**	$ (0.01)
Weighted-average number of shares outstanding		
Basic	**179,317,064**	121,000,205
Diluted	**179,317,064**	121,000,205

See accompanying notes to financial statements

Northern Superior Resources Inc.
(Expressed in Canadian dollars)

Statements of Equity

	Share Capital		Reserves				
	Number of Shares	Amount	Stock options	Warrants	Available-for-sale investments	Deficit	Total Equity
Balance, January 1, 2010 *note 18*	100,570,691	$ 35,144,765	$ 2,531,789	$ 1,504,321	$ 192,375	$ (24,102,888)	$ 15,270,362
Common shares issued for exploration and evaluation property *notes 7 and 10(b)*	25,000,000	3,250,000	-	-	-	-	3,250,000
Common shares issued for cash *note 10(b)*	3,125,000	625,000	-	-	-	-	625,000
Common shares issued on exercise of stock options *note 10(c)*	551,100	97,036	(38,721)	-	-	-	58,315
Common shares issued on exercise of warrants *note 10(e)*	25,311,335	6,804,238	-	(1,004,425)	-	-	5,799,813
Common shares issued on exercise of compensation options *note 10(e)*	2,053,332	286,610	-	(60,210)	-	-	226,400
Warrants granted in exchange for exploration and evaluation property *notes 7 and 10(f)*	-	-	-	803,000	-	-	803,000
Share-based payments *note 10(d)*	-	-	351,301	-	-	-	351,301
Share issue costs	-	(24,550)	-	-	-	-	(24,550)
Unrealized income on available-for-sale investments *note 4*	-	-	-	-	102,388	-	102,388
Reclassification of gain on available-for-sale investments *note 4*	-	-	-	-	(257,263)	-	(257,263)
Net loss for the year	-	-	-	-	-	(1,239,935)	(1,239,935)
Balance, December 31, 2010 *note 18*	156,611,458	$ 46,183,099	$ 2,844,369	$ 1,242,686	$ 37,500	$ (25,342,823)	$ 24,964,831
Common shares issued for exploration and evaluation property *notes 7 and 10(b)*	750,000	172,500	-	-	-	-	172,500
Common shares issued for cash *note 10(b)*	20,619,658	19,137,820	-	-	-	-	19,137,820
Common shares issued on exercise of stock options *note 10(c)*	1,134,332	343,732	(138,627)	-	-	-	205,105
Common shares issued on exercise of warrants *note 10(e)*	5,600,000	1,179,305	-	(70,105)	-	-	1,109,200
Common shares issued on exercise of compensation options *note 10(e)*	807,350	122,449	-	(25,567)	-	-	96,882
Flow-through share liability *notes 8 and 10(b)*	-	(3,185,897)	-	-	-	-	(3,185,897)
Share-based payments *note 10(d)*	-	-	839,776	-	-	-	839,776
Share issue costs *notes 10(b) and 10(e)*	-	(1,853,897)	-	461,664	-	-	(1,392,233)
Reclassification of gain on available-for-sale investments *note 4*	-	-	-	-	(37,500)	-	(37,500)
Net loss for the year	-	-	-	-	-	(3,712,189)	(3,712,189)
Balance, December 31, 2011	**185,522,798**	**$ 62,099,111**	**$ 3,545,518**	**$ 1,608,678**	**$ -**	**$ (29,055,012)**	**$ 38,198,295**

See accompanying notes to financial statements

Northern Superior Resources Inc.
(Expressed in Canadian dollars)

Statements of Cash Flows

Years ended December 31,	**2011**	*2010*
		note 18
Operating Activities		
Net loss for the year	**$ (3,712,189)**	$ (1,239,935)
Items not involving cash		
Flow-through share income	**(1,885,736)**	-
Depreciation	**8,283**	1,950
Gain on sale of available-for-sale investments	**(37,500)**	(257,263)
Share-based payments *note 10(d)*	**480,012**	243,378
Write-off of exploration and evaluation properties	**3,218,644**	-
Change in non-cash operating working capital items:		
Increase in prepaids and receivables	**(349,423)**	(72,752)
Increase in trade payables and accrued liabilities	**103,920**	38,141
Cash used in operating activities	**(2,173,989)**	(1,286,481)
Investing Activities		
Exploration and evaluation property expenditures	**(8,238,557)**	(4,631,418)
Recovery of exploration and evaluation property expenditures	**296,317**	223,821
Proceeds from sale of investment	**45,000**	351,013
Proceeds from sale of exploration and evaluation property interests	**1,300,000**	300,000
Cash provided used in investing activities	**(6,597,240)**	(3,756,584)
Financing Activities		
Proceeds from exercise of stock options	**205,105**	58,315
Proceeds from exercise of compensation options	**96,882**	226,400
Proceeds from exercise of warrants	**1,109,200**	5,799,813
Proceeds from private placements, net of share issue costs	**17,745,587**	600,450
Cash provided by financing activities	**19,156,774**	6,684,978
Increase in cash during the year	**10,385,545**	1,641,913
Cash, beginning of year	**6,708,529**	5,066,616
Cash, end of year	**$ 17,094,074**	$ 6,708,529

Supplemental cash flow information *note 12*

See accompanying notes to financial statements

1. 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 Canada. 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 records office of the Company is 1988 Kingsway, Unit G, Sudbury, Ontario, Canada, P3B 4J8.

2. BASIS OF PREPARATION

a) Statement of Compliance

These audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of these financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("Canadian GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They also have been applied in preparing an opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The impact of the transition from Canadian GAAP to IFRS is explained in Note 18.

The policies applied in these financial statements are based on IFRS issued and outstanding as of March 8, 2012.

b) Approval of Financial Statements

The financial statements of Northern Superior Resources Inc. for the year ended December 31, 2011 were reviewed by the audit committee and approved and authorized for issue by the Board of Directors on March 8, 2012.

c) Adoption of New and Revised Standards and Interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial years beginning on or after January 1, 2011. 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 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, 2013, 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.

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

a) Cash and Cash Equivalents

The Company considers deposits that are highly liquid, readily convertible to known amounts of cash, redeemable on demand and have original maturities of less than three months from the date of purchase to be cash equivalents. Interest income is recorded as earned on the accrual basis at the stated rate of interest over the term of the investment.

b) Financial Assets

Financial assets are classified as loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss (“FVTPL”), or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables comprise Quebec Government refundable tax credits, sales tax receivable and other receivables.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognized or impaired. Available-for-sale assets include investment in equities of other entities.

The fair value is determined by reference to bid prices at the close of business on the reporting date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost.

Financial assets at FVTPL

Financial assets are classified as held for trading and are included in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives, other than those designated as effective hedging instruments, are also categorized as held for trading. These assets are carried at fair value with gains or losses recognized in profit or loss. Cash and cash equivalents are included in this category of financial assets.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

c) Impairment of Financial Assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at each period end.

Loans and receivables

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

Available-for-sale

If an available-for-sale financial asset is impaired, the cumulative loss previously recognized in equity is transferred to profit or loss. Any subsequent recovery in the fair value of the asset is recognized within other comprehensive income.

d) Financial Liabilities

Financial liabilities are classified as financial liabilities at FVTPL, derivatives designated as hedging instruments in an effective hedge, or as financial liabilities measured at amortized cost, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at FVTPL

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated by management on initial recognition. These liabilities are carried at fair value with gains or losses recognized in profit or loss.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest, other revenues and finance costs. Trade payables are included in this category of financial liabilities.

e) Share-based Payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of the options, as determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions, are expensed or capitalized to exploration and evaluation properties as appropriate. The corresponding amount is recorded to the stock options reserve. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest.

f) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the assets 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.

Equipment is depreciated, using the straight-line method over their estimated useful lives. The significant classes of equipment and their estimated useful lives are as follows:

Office and other equipment	5 years
Computer equipment	3 years

Where an item of plant and equipment consists of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

g) Exploration and Evaluation Expenditures

Exploration and evaluation properties and related costs are recorded at cost on a property-by-property basis. The Company considers its exploration and evaluation costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration and evaluation costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production, at which time, they will be amortized on a unit-of-production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made. Costs incurred for general exploration, including expenditures of a general reconnaissance nature, that are not project specific or do not result in the acquisition of exploration and evaluation properties are charged to operations.

All capitalized exploration and evaluation costs are reviewed for indications of impairment regularly to determine whether a write down of their carrying amount is required. Factors such as metal prices (gold and diamond prices), the ability of the Company to finance the projects, and exploration results to date are considered in determining whether indicators of impairment exists.

h) Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. Recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

i) Income Taxes

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

Tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

j) Asset Retirement Obligations

Asset retirement obligations consist of legal obligations associated with the retirement of tangible, long-lived assets that result from the acquisition, construction, development or operation of the assets. The retirement of a long-lived asset is its permanent removal from service, sale, abandonment or disposal.

Asset retirement obligations are recognized as they are incurred and recorded as liabilities at fair value.

The liability is accreted over time through periodic charges to income. Actual expenditures incurred are charged against the accumulated obligation. The asset retirement cost is capitalized as part of the related asset's carrying value and depreciated over the asset's useful life.

Management has determined that it has no asset retirement obligations at this time.

k) Flow-through Shares

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

l) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that (i) net earnings (loss) attributable to common shareholders are adjusted for fair value gains or losses of warrants (if dilutive) and (ii) the weighted average number of common shares outstanding is adjusted for the number of shares that are potentially issuable in connection with stock options and warrants (if dilutive) using the treasury stock method. Under this method, the Company assumes that outstanding dilutive stock options and warrants were exercised and that the proceeds from such exercises (after adjustment of any unvested portion of stock options) were used to acquire common stock at the average market price during the reporting periods.

(Expressed in Canadian dollars)

m) Use of Estimates

The preparation of 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, stock based compensation and ability to continue as a going concern. Actual results may differ from those estimates.

4. AVAILABLE-FOR-SALE INVESTMENTS

As at	**December 31, 2011**		December 31, 2010		January 1, 2010	
	Cost	**Fair Value**	Cost	Fair Value	Cost	Fair Value
Forum Uranium Corp. ("Forum") Nil common shares (December 31, 2010 - 150,000 common shares, January 1, 2010 - 2,025,000 common shares)	**$ -**	**$ -**	$ 7,500	$ 45,000	$ 101,250	$ 293,625

During the year ended December 31, 2011, the Company sold its remaining 150,000 common shares of Forum (2010 - 1,875,000) for net cash proceeds of $45,000 (2010 - $351,013) resulting in a gain of $37,500 (2010 - $257,263) for accounting purposes and a reclassification in the available-for-sale investments reserve.

During the year ended December 31, 2011, the Company recorded unrealized income for accounting purposes of $Nil (2010 - $102,388) resulting in an increase to the available-for-sale investments reserve of $Nil (2010 - $102,388).

The sale of Forum shares in 2011 reduced the Company's available-for-sale investments reserve to $Nil (2010 - $37,500).

5. PREPAIDS AND RECEIVABLES

Prepaids and receivables consist of the following:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Government refundable tax credits	**$ 48,456**	$ 49,199	$ 160,203
Due from joint venture partners	**184,306**	83,103	87,307
Sales tax receivable - net	**348,936**	80,514	29,201
Prepaid expenses	**22,722**	88,635	22,543
Interest receivable	**171,973**	8,600	-
Other receivables	**-**	16,459	69,712
Total	**$ 776,393**	$ 326,510	$ 368,966
Receivables (non-current portion):			
Quebec Government refundable tax credits	**$ -**	$ 8,113	$ 21,598

(Expressed in Canadian dollars)

6. EQUIPMENT

A summary of the changes in the Company's equipment for the year ended December 31, 2011 is as follows:

	Office and other equipment		Computer equipment		Total	
Cost						
At December 31, 2010	$	37,418	$	29,344	$	66,762
Additions		-		-		-
Disposals		-		-		-
At December 31, 2011	**$**	**37,418**	**$**	**29,344**	**$**	**66,762**
Depreciation						
At December 31, 2010	$	25,482	$	27,029	$	52,511
Change for the year		5,968		2,315		8,283
At December 31, 2011	**$**	**31,450**	**$**	**29,344**	**$**	**60,794**
Net book value						
At December 31, 2010	$	11,936	$	2,315	$	14,251
At December 31, 2011	**$**	**5,968**	**$**	**-**	**$**	**5,968**

A summary of the changes in the Company's equipment for the year ended December 31, 2010 is as follows:

	Office and other equipment		Computer equipment		Total	
Cost						
At January 1, 2010	$	37,418	$	29,344	$	66,762
Additions		-		-		-
Disposals		-		-		-
At December 31, 2010	$	37,418	$	29,344	$	66,762
Depreciation						
At January 1, 2010	$	17,998	$	17,248	$	35,246
Change for the year		7,484		9,781		17,265
At December 31, 2010	$	25,482	$	27,029	$	52,511
Net book value						
At January 1, 2010	$	19,420	$	12,096	$	31,516
At December 31, 2010	$	11,936	$	2,315	$	14,251

(Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION PROPERTIES

For year ended December 31, 2011

	Ti-pa-haa-kaa-ning	New Growth	Meston Lake	Rapson Bay	Croteau Est	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).
(3) The Company received $1,300,000 cash for the sale of mineral 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.

(Expressed in Canadian dollars)

For year ended December 31, 2010

	Ti-pa-haa-kaa-ning	New Growth	Meston Lake	Rapson Bay	Croteau Est	Wachigabau	Other[1]	Total
Balance, beginning of year	$ 5,434,190	$ -	$ 21,419	$ 52,010	$ -	$ 1,358,984	$ 2,757,840	$ 9,624,443
Acquisition, assessment and maintenance[2]	4,120,927	-	-	-	-	9,973	54,227	4,185,127
Amortization	13,994	-	-	-	-	719	602	15,315
Analytical	114,902	-	232	824	-	19,815	104,872	240,645
Geophysics	22,246	-	-	-	-	101,169	230,508	353,923
Geology	73,587	-	22,399	73,141	-	49,780	242,710	461,617
Drilling	2,246,583	-	-	-	-	165,246	-	2,411,829
Research	148,012	-	222	797	-	-	14,992	164,023
Project administration	76,227	-	7,879	13,767	-	15,021	24,965	137,859
Site access and camp	836,768	-	-	-	-	-	-	836,768
Sale of exploration and evaluation property interests[3]	(300,000)	-	-	-	-	-	-	(300,000)
Cost recoveries[4]	(67,938)	-	-	-	-	-	(21,796)	(89,734)
Tax credit adjustments	-	-	-	-	-	19,804	(21,191)	(1,387)
Balance, end of year	$ 12,719,498	$ -	$ 52,151	$ 140,539	$ -	$ 1,740,511	$ 3,387,729	$ 18,040,428

(1) Includes Lac Surprise ($320,055), Thorne Lake ($363,516), Ville Marie ($2,066,930) and Other ($637,228) as at December 31, 2010.
(2) Includes Ti-pa-haa-kaa-ning non-cash acquisition costs of $3,250,000 (deemed value of shares issued) and $803,000 (fair value of warrants issued).
(3) The Company received $300,000 cash for the sale of exploration and evaluation property interests to Rainy River Resources Ltd.
(4) The Company recorded cost recoveries of $67,938 and $21,796 from Rainy River Resources Ltd. and INV Metals Inc., 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, $4,000,000 in Year 2 ending April 30, 2012, 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 (note 10(b)). The second placement of $500,000, at $0.36 per share, was completed on July 8, 2011 (note 10(b)). Under the terms of the agreement, the Company was required to spend an additional $1,600,000 in exploration expenditures on the eastern half of the TPK project in 2010, which was surpassed before December 31, 2010.

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.

Acquisition of Lake Shore Gold Corp.'s 50% Ownership of TPK

On May 27, 2010, the Company completed an agreement with Lake Shore Gold Corp. ("Lake Shore") to acquire Lake Shore's 50% interest in the TPK property in exchange for 25,000,000 shares and 12,500,000 warrants of the Company (note 10(b)). The terms of the warrants were: each warrant entitles the holder to purchase one share of the Company at a price of $0.30 per share for 5 years, with the provision that if the Company's share price maintains a value of over $0.35 during any 20 consecutive trading day period, the Company would have the right to require Lake Shore to exercise any unexercised warrants within 30 days or forfeit them. In addition, the Company agreed to grant Lake Shore an assignable (subject to a right of first refusal in favor of the Company) 2% Net Smelter Royalty ("NSR") on all minerals produced from TPK, with the Company having the right to purchase back one quarter of the NSR (0.5%) for $1,000,000.

The agreement also provided that: (i) the Company will be responsible for all expenditures on TPK from January 1, 2010 onward; (ii) for a period of five years and so long as Lake Shore maintains at least a 10% ownership interest, it will be offered the right to participate in any future equity financings pro rata in order to maintain its ownership interest (Lake Shore exercised this right and participated in a private placement financing on September 9, 2010 with a $125,000 investment (note 10(b)); and (iii) for so long as Lake Shore maintains at least a 19.9% ownership interest it will be entitled to nominate at least two directors to serve on the Company's board, and should its holdings drop below 19.9% but remain above 10% it shall be entitled to nominate one director.

The deemed cost of the 25,000,000 shares issued was $3,250,000, which was added to the acquisition costs of the TPK project (note 10(b)). The fair value of the 12,500,000 warrants issued was $803,000, which was also added to the acquisition costs of the TPK project (note 10(f)).

In October 2010, Lake Shore exercised its 12,500,000 warrants after receiving notice that the Company had met the 20 consecutive days over $0.35 trading price, and the Company issued 12,500,000 common shares for cash proceeds of $3,750,000.

New Growth property

The New Growth property is 100% owned by the Company. The New Growth property area originally represented two-thirds 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.

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 $1,571,187 on the property during the year ended December 31, 2011 (2010 - $30,732).

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 $3,049,558 on the property during the year ended December 31, 2011 (2010 - $88,529).

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 (incurred), $300,000 in year 2, $400,000 in year 3 and $800,000 in year 4. 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, $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.

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 kimberlites and 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.

During the year ended December 31, 2011, the Company recorded a provision for write-down of $956,958 (2010 - $Nil) related to Wachigabau property.

(Expressed in Canadian dollars)

Other properties

Thorne Lake property - In November 2011, the Company completed an agreement to reacquire a 50% interest in the Thorne Lake property that it had previously optioned to INV Metals Inc. ("INV"). In 2009, the Company had entered into an option and joint venture agreement with INV under which INV could earn a 50% interest in the Thorne Lake property by funding $1.5 million in exploration expenditures over 4 years. Upon INV completing its funding obligations, a joint venture would be formed with INV and the Company both holding a 50% interest in the property. Prior to the reacquisition, INV had contributed a total of $1,166,997 in cash towards its earn-in on the project. The Company reacquired a 100% interest in the property by making a cash payment of $500,000 to INV and issuing 750,000 shares of the Company to INV at a deemed price of $0.23 per share ($172,500 total deemed price of shares) (note 10(b)).

Ville Marie property – During the year ended December 31, 2011, the Company recorded a provision for write-down of $2,110,626 (2010 - $Nil) related to Ville Marie property.

Ellard Lake property – During the year ended December 31, 2011, the Company recorded a provision for write-down of $151,060 (2010 - $Nil) related to Ellard Lake property.

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

As at		**December 31, 2011**		December 31, 2010		January 1, 2010
Trade payables	**$**	**621,860**	$	23,718	$	12,400
Amounts due to related parties		**4,807**		23,609		8,000
Accrued liabilities		**166,935**		130,673		116,002
	$	**793,602**	$	178,000	$	136,402

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 $1,300,161 remaining at December 31, 2011 (note 10(b)).

During the year ended December 31, 2011, the Company incurred approximately $5,112,736 in qualifying Canadian exploration expenditures resulting in a flow-through share income, with a corresponding decrease in the flow-through share liability of $1,885,736, on the basis that the Company has the intention of renouncing these qualifying Canadian exploration expenditures to the respective investors.

9. INCOME TAXES

The provision for income taxes in the statement of loss and deficit represents an effective rate different than would be computed by applying the combined Canadian statutory federal and provincial income tax rates to the loss before income taxes due to the following:

(Expressed in Canadian dollars)

For the years ended December 31,		**2011**		2010
Loss before income taxes	**$**	**(3,712,189)**	$	(1,239,935)
Canadian statutory income tax rates		**28.25%**		31.00%
Recovery of income taxes at Canadian statutory rates		**1,048,693**		384,380
Permanent differences		**1,064,589**		(354,038)
Changes in tax rates		**(77,107)**		252,311
Flow-through shares renunciation		**(1,444,348)**		(1,293,730)
Change in valuation allowance		**(591,827)**		1,011,077
Deferred tax recovery	**$**	**-**	$	-

The tax effect of temporary differences that gives rise to the Company's net future income tax assets is as follows:

As at		**December 31, 2011**		December 31, 2010		January 1, 2010
Deferred tax assets (liabilities)						
Operating losses carried forward	**$**	**2,218,807**	$	1,605,629	$	1,449,458
Capital loss carried forward		**1,188,732**		1,186,857		1,136,984
Resource properties		**(995,062)**		(431,598)		642,542
Share issue costs		**319,783**		104,631		186,592
Other		**354,764**		29,678		90,698
	$	**3,087,024**	$	2,495,197	$	3,506,274
Less: Valuation allowance		**(3,087,024)**		(2,495,197)		(3,506,274)
Total deferred tax assets	**$**	**-**	$	-	$	-

At December 31, 2011, the Company had capital losses for tax purposes in Canada totaling $9,509,856 that may be carried forward indefinitely, and operating loss carry forwards of $8,875,227 available for tax purposes in Canada which expire as follows:

Tax Operating Losses	Year of Expiry
$ 379,827	2014
314,918	2015
479,151	2026
872,751	2027
1,263,477	2028
1,518,538	2029
1,593,853	2030
2,452,712	2031
$ 8,875,227	

10. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

b) Issued Capital

During the years ended December 31, 2011 and 2010, changes in issued share capital were as follows:

On May 27, 2010, the Company issued 25,000,000 shares at $0.13 per share for total value of $3,250,000 related to the acquisition of Lake Shore's 50% interest in the TPK property (note 7).

On September 9, 2010, the Company closed a private placement with Rainy River for 2,500,000 shares of the Company at a price of $0.20 per share for proceeds of $500,000. At the same time, pursuant to a right granted to Lake Shore in May 2010 in connection with the Company's acquisition of the entire TPK gold property, the Company closed a private placement with Lake Shore for 625,000 shares of the Company at a price of $0.20 per share for proceeds of $125,000 (note 7).

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.

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 8).

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 10(e)).

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 (note 7).

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 7).

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

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

During the year, 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)

c) Stock Options

As at December 31, 2011, the Company had 9,824,568 stock options outstanding of which 3,986,228 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 years ended December 31, 2011 and 2010 is as follows:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Number of options	**Weighted-average exercise price**	Number of options	Weighted-average exercise price
Outstanding, beginning of year	**7,753,900**	**$0.33**	6,580,000	$0.22
Granted	**3,595,000**	**$0.26**	2,450,000	$0.55
Expired	**(50,000)**	**$0.50**	(110,000)	$0.45
Exercised	**(1,134,332)**	**$0.18**	(551,100)	$0.11
Forfeited	**(340,000)**	**$0.43**	(615,000)	$0.20
Outstanding, end of year	**9,824,568**	**$0.32**	7,753,900	$0.33
Exercisable, end of year	**3,986,228**	**$0.32**	4,023,900	$0.27

A weighted average grant-date fair value of $0.26 (2010 - $0.55) for options granted during the year ended December 31, 2011 was determined using the Black-Scholes Option Pricing Model using the following assumptions: no dividends are to be paid; volatility of 152.9% (2010 - 152.6%); risk-free interest rate of 1.5% (2010 - $2.1%); and expected life of 5 years.

The following table summarizes information regarding stock options outstanding and exercisable at December 31, 2011:

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**
$0.01 - $0.19	2,454,568	2.74	$0.12	1,777,899	2.66	$0.12
$0.20 - $0.39	4,035,000	4.29	$0.27	540,000	0.85	$0.36
$0.40 - $0.59	2,900,000	3.23	$0.52	1,333,329	2.50	$0.49
$0.60 - $0.79	435,000	1.16	$0.65	335,000	0.21	$0.63
	9,824,568	3.45	$0.32	3,986,228	2.15	$0.32

(Expressed in Canadian dollars)

d) Share-Based Payments

Share-based payments recognized in the year are allocated to exploration and evaluation properties, consulting fees and office expense.

The following table summarizes the stock-based compensation expense for stock option grants that the Company recorded for the years ended December 31, 2011 and 2010:

Years ended December 31,		**2011**		2010
Exploration and evaluation properties	**$**	**359,764**	$	107,923
Consulting fees		**266,984**		99,146
Office expense		**213,028**		144,232
Total share-based payments	**$**	**839,776**	$	351,301

Share-based payments of $359,764 (2010 - $107,923) related to exploration and evaluation properties are capitalized to exploration and evaluation properties and share-based payments of $480,012 (2010 - $243,378) related to consulting fees and office expense are expensed for the year ended December 31, 2011.

e) Warrants and Compensation Options

A summary of the changes in the Company's warrants for the years ended December 31, 2011 and 2010 is as follows:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Number of warrants	**Weighted-average exercise price**	Number of warrants	Weighted-average exercise price
Outstanding, beginning of year	**6,079,247**	**$0.20**	18,390,582	$0.16
Granted	**-**	**-**	13,000,000	$0.30
Exercised	**(5,600,000)**	**$0.20**	(25,311,335)	$0.23
Expired	**(479,247)**	**$0.20**	-	$0.00
Outstanding, end of year	**-**	**-**	6,079,247	$0.20

A summary of the changes in the Company's compensation options for the years ended December 31, 2011 and 2010 is as follows:

	Yeas ended December 31, 2011		Year ended December 31, 2010	
	Number of options	**Weighted-average exercise price**	Number of options	Weighted-average exercise price
Outstanding, beginning of year	**807,350**	**$0.12**	2,860,682	$0.12
Granted	**1,153,847**	**$0.80**	-	$0.00
Exercised	**(807,350)**	**$0.12**	(2,053,332)	$0.11
Outstanding, end of year	**1,153,847**	**$0.80**	807,350	$0.12

(Expressed in Canadian dollars)

As at December 31, 2011 the following compensation options were outstanding and exercisable:

Date issued	Number of Options	Exercise price	Expiry date
January 12, 2011	750,000	$ 0.80	January 12, 2012
January 27, 2011	403,847	$ 0.80	January 27, 2012
	1,153,847		

The Company issued 750,000 compensation options on January 12, 2011 and 403,847 compensation warrants on January 27, 2011 in connection with two separate brokered private placements. The compensation options were valued at $461,664 using the Black-Scholes Option Pricing Model on the date of issue. The grant-date fair value for the compensation options was estimated using the following weighted average assumptions: no dividends are to be paid; volatility of 119.9%; risk free interest rate of 1.4%; and expected life of 1 year.

f) Reserves

A summary of the changes in the stock options reserve for the years end December 31, 2011 and 2010 is as follows:

For the years ended December 31,	**2011**	2010
Balance, beginning of year	**$2,844,369**	$2,531,789
Stock-based payments	**839,776**	351,301
Stock options exercised	**(138,627)**	(38,721)
Balance, end of year	**$3,545,518**	$2,844,369

A summary of the changes in the warrants reserve for the years end December 31, 2011 and 2010 is as follows:

For the years ended December 31,	**2011**	2010
Balance, beginning of year	**$1,242,686**	$1,504,321
Warrants granted in exchange for exploration and evaluation properties *note 7*	**-**	803,000
Fair value of warrants and compensation options issued	**461,664**	-
Warrants exercised	**(70,105)**	(1,004,425)
Compensation options exercised	**(25,567)**	(60,210)
Balance, end of year	**$1,608,678**	$1,242,686

11. RELATED PARTY TRANSACTIONS

Years ended December 31,	**2011**	2010
Management and other fees	**$ 112,451**	$ 99,050
Salaries and wages	**973,312**	394,232
Share-based payments	**598,647**	192,603
	$ 1,684,410	$ 685,885

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.

(Expressed in Canadian dollars)

12. SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended December 31,		**2011**		2010
Non-cash investing and financing activities				
Common shares issued pursuant to property agreements	**$**	**172,500**	$	3,250,000
Transfer of amounts from reserves		**234,299**		1,103,356
Warrants and compensation options issued pursuant to private placements		**461,664**		-
Warrants issued pursuant to property agreement		**-**		803,000
Changes in working capital related to resource properties		**419,335**		132,150
Depreciation capitalized		**-**		15,315
Tax liability related to premium received on flow-through shares		**3,185,897**		-
Interest received		**84,758**		23,549
Interest paid		**-**		29,632
Taxes paid		**7,398**		-

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Financial Instruments

The carrying value of financial assets and liabilities at December 31, 2011 and 2010 and January 1, 2010 are as follows:

As at		**December 31, 2011**		December 31, 2010		January 1, 2010
Financial Assets						
Fair value through profit or loss, measured at fair value						
Cash and cash equivalents	**$**	**17,094,074**	$	6,708,529	$	5,066,616
Loans and receivables, measured at amortized cost						
Receivables		**356,279**		108,162		157,019
Available-for-sale, measured at fair value						
Available-for-sale investments		**-**		45,000		293,625
Financial Liabilities						
Other liabilities, measured at amortized cost						
Trade payables and due to related parties	**$**	**626,667**	$	47,327	$	20,400

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

As at		**December 31, 2011**		December 31, 2010		January 1, 2010
		Level 1		Level 1		Level 1
Cash and cash equivalents	**$**	**17,094,074**	$	6,708,529	$	5,066,616
Available-for-sale investments		**-**		45,000		293,625

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

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

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2011, the Company had cash and cash equivalents of $17,094,074 (December 31, 2010 - $6,708,529, January 1, 2010 - $5,066,616) to settle accounts payables totaling $793,602 (December 31, 2010 - $178,000, January 1, 2010 - $136,402). 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 $170,941 for the year ended December 31, 2011.

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

14. 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 year ended December 31, 2011. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products.

(Expressed in Canadian dollars)

15. COMMITMENTS

	Less than 1 year	1 - 5 years	5 or more years	Total
Operating lease - office lease	$ 40,600	$ -	$ -	**$ 40,600**

The Company is committed to incur, on a best efforts basis, approximately $3,525,084 in qualifying Canadian exploration expenditures by December 31, 2012 pursuant to a flow-through private placement, of which approximately $5,112,736 has been incurred as at December 31, 2011.

16. 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.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in accordance with the current year's presentation.

18. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, sets forth guidance for the initial adoption of IFRS. The accounting policies in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010 and the preparation of an opening IFRS statement of financial position on January 1, 2010 (the "Transition Date").

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

a) Share-based payment transactions

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

In addition, under Canadian GAAP, the Company expensed the share-based payments in the statements of operations. On transition to IFRS, the Company is adopting an accounting policy to capitalize certain of the share-based payments related to stock options granted to employees and non-employees for work performed on the Company's exploration and evaluation properties as a component of those properties.

Adoption of IFRS 2 and the change in accounting policy related to share-based payments resulted in an increase in exploration and evaluation properties, increase in stock options reserve and a net decrease in deficit as at the Transition Date of $23,625, $19,029 and $4,596, respectively, and a further increase in exploration and evaluation properties, a further increase in stock options reserve and a decrease in share-based payment expense of $107,923, $73,783 and $34,140, respectively, for the year ended December 31, 2010.

b) Flow-through shares

Flow-through shares are a unique Canadian tax incentive which is the subject of specific guidance under Canadian GAAP. Under Canadian GAAP, the Company accounted for the issue of flow-through shares in accordance with the provisions of CICA Emerging Issues Committee Abstract 146, *Flow-through Shares*. At the time of issue, the funds received are recorded as share capital. At the time of the filing of the renunciation of the qualifying flow-through expenditures to investors, the Company recorded a deferred tax liability with a charge directly to shareholders' equity. Also under Canadian GAAP, a portion of the deferred tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statements of operations.

IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is initially recorded as a flow-through liability and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through liability is reversed, with any difference charged to the statements of operation as deferred tax expense. A portion of the deferred tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will reduce the deferred tax liability and record a deferred tax recovery.

The change in accounting policy related to flow-through shares resulted in an increase in share capital, an increase in deficit and a decrease in deferred tax asset as at the Transition Date of $4,623,738, $5,917,438 and $1,293,700, respectively, and an increase in share capital as at December 31, 2010 of $1,293,700.

c) Reclassification within Equity section

Under Canadian GAAP, "Contributed surplus" was used to record the issuance of warrants and stock options. Upon adoption of IFRS, the balances in "Contributed surplus" have been reclassified to "Stock options reserve" and "Warrants reserve".

In addition, the Company reclassified the balance of the "Accumulated other comprehensive income" that existed under Canadian GAAP into "Available-for-sale investments reserve".

d) IFRS mandatory exceptions

In accordance with IFRS 1, the Company's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under Canadian GAAP unless there is objective evidence that those estimates were in error. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS.

e) Reconciliations of Canadian GAAP to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. The following analysis represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted:

(Expressed in Canadian dollars)

Reconciliation of Statements of Financial Position

As at January 1, 2010	note	Canadian GAAP	IFRS Adjustments	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 5,066,616	$ -	$ 5,066,616
Prepaids and receivables		368,966	-	368,966
		5,435,582	-	5,435,582
Non-current assets				
Available-for-sale investments		293,625	-	293,625
Receivables		21,598	-	21,598
Exploration and evaluation properties	18(a)	9,600,818	23,625	9,624,443
Equipment		31,516	-	31,516
Deferred tax asset	18(b)	1,293,700	(1,293,700)	-
		11,241,257	(1,270,075)	9,971,182
Total assets		$ 16,676,839	$ (1,270,075)	$ 15,406,764
Liabilities				
Current liabilities				
Trade payables and accrued liabilities		$ 136,402	$ -	$ 136,402
Equity				
Share capital	18(b)	30,521,027	4,623,738	35,144,765
Contributed surplus	18(c)	4,017,081	(4,017,081)	-
Accumulated other comprehensive income	18(c)	192,375	(192,375)	-
Stock options reserve	18(a) and 18(c)	-	2,531,789	2,531,789
Warrants reserve	18(c)	-	1,504,321	1,504,321
Available-for-sale investments reserve	18(c)	-	192,375	192,375
Deficit	18(a) and 18(b)	(18,190,046)	(5,912,842)	(24,102,888)
		16,540,437	(1,270,075)	15,270,362
Total liabilities and equity		$ 16,676,839	$ (1,270,075)	$ 15,406,764

(Expressed in Canadian dollars)

As at December 31, 2010	note	Canadian GAAP	IFRS Adjustments	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 6,708,529	$ -	$ 6,708,529
Available-for-sale investments		45,000	-	45,000
Prepaids and receivables		326,510	-	326,510
		7,080,039	-	7,080,039
Non-current assets				
Receivables		8,113	-	8,113
Exploration and evaluation properties	18(a)	17,908,880	131,548	18,040,428
Equipment		14,251	-	14,251
		17,931,244	131,548	18,062,792
Total assets		$ 25,011,283	$ 131,548	$ 25,142,831
Liabilities				
Current liabilities				
Trade payables and accrued liabilities		$ 178,000	$ -	$ 178,000
Equity				
Share capital	18(b)	40,265,661	5,917,438	46,183,099
Contributed surplus	18(c)	3,994,243	(3,994,243)	-
Accumulated other comprehensive income	18(c)	37,500	(37,500)	-
Stock options reserve	18(a) and 18(c)	-	2,844,369	2,844,369
Warrants reserve	18(c)	-	1,242,686	1,242,686
Available-for-sale investments reserve	18(c)	-	37,500	37,500
Deficit	18(a) and 18(b)	(19,464,121)	(5,878,702)	(25,342,823)
		24,833,283	131,548	24,964,831
Total liabilities and equity		$ 25,011,283	$ 131,548	$ 25,142,831

(Expressed in Canadian dollars)

Reconciliation of Statement of Loss and Comprehensive Loss

For the year ended December 31, 2010	note	Canadian GAAP	IFRS Adjustments	IFRS
Expenses				
Consulting fees	18(a)	$ 181,007	$ 18,114	$ 199,121
Depreciation		1,950	-	1,950
General exploration	18(a)	81,299	(81,299)	-
Interest		369	-	369
Legal and accounting		98,697	-	98,697
Office expense	18(a)	790,899	29,045	819,944
Shareholder information		329,875	-	329,875
Travel		41,159	-	41,159
Loss before the undernoted		(1,525,255)	34,140	(1,491,115)
Interest income		23,549	-	23,549
Gain on sale of investment		257,263	-	257,263
Flow-through share interest expense		(29,632)	-	(29,632)
Net loss		$ (1,274,075)	$ 34,140	$ (1,239,935)
Other comprehensive income (loss)				
Unrealized income on available-for-sale investments		102,388	-	102,388
Reclassification of gain on available-for-sale investments included in net loss		(257,263)	-	(257,263)
Comprehensive loss for the year		$ (1,428,950)	$ 34,140	$ (1,394,810)

(Expressed in Canadian dollars)

Reconciliation of Statement of Cash Flows

For the year ended December 31, 2010	note	Canadian GAAP	IFRS Adjustments	IFRS
Operating Activities				
Net loss for the year	18(a)	$ (1,274,075)	$ 34,140	$ (1,239,935)
Items not involving cash				
Depreciation		1,950	-	1,950
Gain on sale of investment		(257,263)	-	(257,263)
Share-based payments	18(a)	277,518	(34,140)	243,378
Change in non-cash operating working capital items:				
Increase in prepaids and other receivables		(72,752)	-	(72,752)
Decrease in trade payables and accrued liabilities		38,141	-	38,141
Cash used in operating activities		(1,286,481)	-	(1,286,481)
Investing Activities				
Exploration and evaluation property expenditures		(4,631,418)	-	(4,631,418)
Recovery of exploration and evaluation property expenditures		223,821	-	223,821
Proceeds from sale of investment		351,013	-	351,013
Proceeds from sale of exploration and evaluation property interests		300,000	-	300,000
Cash used in investing activities		(3,756,584)	-	(3,756,584)
Financing Activities				
Proceeds from exercise of stock options		58,315	-	58,315
Proceeds from exercise of compensation options		226,400	-	226,400
Proceeds from exercise of warrants		5,799,813	-	5,799,813
Proceeds from private placements		600,450	-	600,450
Cash provided by financing activities		6,684,978	-	6,684,978
Increase in cash during the year		1,641,913	-	1,641,913
Cash, beginning of year		5,066,616	-	5,066,616
Cash, end of year		$ 6,708,529	$ -	$ 6,708,529

19. SUBSEQUENT EVENTS

The following events occurred from December 31, 2011 to the date the financial statements were available to be issued on March 8, 2012:

The Company issued a total of 146,666 common shares of the Company upon exercise of stock options for total cash proceeds of $16,400.

A total 1,153,847 compensation options exercisable at $0.80 per share expired (note 10(e)).