SULTAN MINERALS INC.
(an exploration stage company)
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sultan Minerals Inc.

Report on the financial statements

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

Management's responsibility for the 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Sultan Minerals Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada

April 23, 2012 Chartered Accountants

SULTAN MINERALS INC.

(an exploration stage company)
Statements of Financial Position
Expressed in Canadian Dollars

	December 31, 2011	December 31, 2010 (Note 13)	January 1, 2010 (Note 13)
Assets			
Current assets			
Cash	**$ -**	$ 187,177	$ 13,629
Short-term investments	**82,250**	497,250	1,760,000
Accounts receivable	**57,155**	52,772	15,316
Due from related parties (Note 9)	**-**	-	5,334
Prepaid expenses	**16,366**	19,607	19,130
Total current assets	**155,771**	756,806	1,813,409
Exploration and evaluation assets (Note 5)	**9,438,584**	9,367,532	8,668,228
Investments (Note 6)	**196**	352	548
Equipment (Note 7)	**1,868**	3,799	11,255
Reclamation deposits	**21,120**	21,120	22,170
Total assets	**$ 9,617,539**	$ 10,149,609	$ 10,515,610
Liabilities and Equity			
Current liabilities			
Cheques written in excess of funds on deposit	**$ 19,932**	$ -	$ -
Accounts payable and accrued liabilities	**79,983**	114,260	78,694
Deferred revenue (Note 5 (b))	**37,778**	-	-
Due to related parties (Note 9)	**36,489**	11,157	48,000
Total liabilities	**174,182**	125,417	126,694
Equity			
Share capital (Note 8)	**22,719,474**	22,715,974	22,291,713
Warrants (Note 8)	**368,616**	368,616	328,289
Share-based payments reserve	**3,307,659**	3,307,659	3,303,165
Accumulated other comprehensive loss	**(3,721)**	(3,562)	(3,366)
Deficit	**(16,948,671)**	(16,364,495)	(15,530,885)
Total equity	**9,443,357**	10,024,192	10,388,916
Total liabilities and equity	**$ 9,617,539**	$ 10,149,609	$ 10,515,610
COMMITMENTS (Note 14)			
SUBSEQUENT EVENT (Note 15)			

The financial statements were approved and authorized for issuance by the Board of Directors on April 23, 2012. They were signed on the Company's behalf by:

/s/ "*Arthur G. Troup*"
Director

/s/ "*Robin Merrifield*"
Director

See accompanying notes to financial statements.

SULTAN MINERALS INC.
(an exploration stage company)
Statements of Operations and Comprehensive Loss
Expressed in Canadian Dollars

	Years ended December 31, 2011	2010 (Note 13)
Expenses		
Depreciation	**$ 1,931**	$ 741
Legal, accounting and audit	**65,820**	46,072
Management fees	**30,000**	30,000
Office and administration	**131,916**	134,331
Property investigations	**--**	2,410
Salaries and benefits	**187,042**	272,620
Shareholder communications	**160,358**	300,820
Share-based payments (Note 8 (c))	**--**	4,494
Travel and conferences	**9,069**	63,547
Interest and other (recoveries)	**(1,960)**	(21,425)
	584,176	833,610
Net loss for the year	**(584,176)**	(833,610)
Other comprehensive loss		
Unrealized loss on investments	**(159)**	(196)
Comprehensive loss for the year	**$ (584,335)**	$ (833,806)
Loss per share, basic and diluted	**$ (0.00)**	$ (0.01)
Weighted average number of common shares outstanding – basic and diluted	**130,464,692**	124,821,974

See accompanying notes to financial statements.

SULTAN MINERALS INC.

(an exploration stage company)
Statements of Changes in Equity
Years ended December 31, 2011 and 2010
Expressed in Canadian Dollars

	Common Shares Without Par Value				Accumulated		
	Shares	Amount	Warrants Reserve	Share-based Payments Reserve	Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance, January 1, 2010	123,910,618	$ 22,291,713	$ 328,289	$ 3,303,165	$ (3,366)	$ (15,530,885)	$ 10,388,916
Issued for cash							
Private placement, less share issue costs	4,662,500	317,930	46,718	--	--	--	364,648
Warrants exercised	1,623,800	87,581	(6,391)	--	--	--	81,190
Issued for mineral property interest and other							
Garnet Lead-Zinc Property	100,000	8,500	–	--	--	--	8,500
HB Mine	50,000	4,750	–	--	--	--	4,750
HB Mine 2	100,000	5,500	--	--	--	--	5,500
Share-based payments	--	--	--	4,494	--	--	4,494
Other comprehensive loss	--	--	--	--	(196)	--	(196)
Net loss for the year	--	--	--	--	--	(833,610)	(833,610)
Balance, December 31, 2010	130,446,918	$ 22,715,974	$ 368,616	$ 3,307,659	$ (3,562)	$ (16,364,495)	$ 10,024,192
Issued for mineral property interest and other							
Garnet Lead-Zinc Property	100,000	3,000	--	--	--	--	3,000
Daylight Claim Group	12,500	500	--	--	--	--	500
Other comprehensive loss	--	--	--	--	(159)	--	(159)
Net loss for the year	--	--	--	--	--	(584,176)	(584,176)
Balance, December 31, 2011	**130,559,418**	**$ 22,719,474**	**$ 368,616**	**$ 3,307,659**	**$ (3,721)**	**$ (16,948,671)**	**$ 9,443,357**

See accompanying notes to financial statements.

SULTAN MINERALS INC.

(an exploration stage company)
Statements of Cash Flows
Expressed in Canadian Dollars

	Years ended December 31, 2011	2010
Cash provided by (used for)		
Operations		
Net loss for the year	**$ (584,176)**	$ (833,610)
Items not involving cash:		
Depreciation	**1,931**	741
Share-based payments	**--**	4,494
Changes in non-cash operating working capital		
Accounts receivable	**26,550**	(37,456)
Due to/from related parties	**25,332**	(31,509)
Prepaid expenses	**3,241**	(477)
Accounts payable and accrued liabilities	**(34,280)**	9,432
	(561,402)	(888,385)
Investing activities		
Exploration and evaluation assets		
Acquisition costs	**(17,480)**	(61,713)
Exploration and evaluation costs	**(93,227)**	(582,078)
Options proceeds received	**50,000**	–
Short-term investments redeemed	**415,000**	1,262,750
Purchase of equipment	**--**	(3,914)
Reclamation deposits	**--**	1,050
	354,293	616,095
Financing activity		
Common shares and warrants, net of share issue costs	**–**	445,838
(Decrease) increase in cash during the year	**(207,109)**	173,548
Cash, beginning of year	**187,177**	13,629
(Cheques issued in excess of funds on deposit) cash, end of year	**$ (19,932)**	$ 187,177
Supplemental information		
Shares issued for mineral property interest	**$ 3,500**	$ 18,750
Interest paid	**$ --**	$ --
Interest received	**$ 3,340**	$ 7,831
Income tax paid	**$ –**	$ –

See accompanying notes to financial statements.

1. CORPORATE INFORMATION AND NATURE OF OPERATIONS

Sultan Minerals Inc., incorporated in British Columbia, is a public company listed on the TSX Venture Exchange ("TSX-V") and trades under the symbol SUL. The address of the Company's corporate office and its principal place of business is 1066 West Hastings Street, Suite 2000, Vancouver, British Columbia, Canada.

The Company is in the exploration stage and its principal business activity is the exploration and evaluation of mineral properties in Canada. The Company is in the process of exploring and evaluating its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The amounts shown as mineral properties and related capitalized exploration costs represent costs net of recoveries to date, less amounts written off, and do not necessarily represent present or future values. Recoverability of the amounts shown for mineral properties is dependent upon the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

2. BASIS OF PREPARATION

a) Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This is the first time that the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 13.

b) Going Concern

These financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations for a reasonable period of time. The Company has incurred losses since its inception and had an accumulated deficit of $16,948,671 at December 31, 2011 (December 31, 2010 - $16,364,495; January 1, 2010 - $15,530,885), which has been funded primarily by issuance of shares. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future. The Company has been successful in the past in raising funds for operations by issuing shares, but there is no assurance that it will be able to continue to do so in the future. These factors may cast significant doubt on the use of the going concern basis of accounting.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Measurement Basis

These financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 3. All amounts are expressed in Canadian dollars unless otherwise stated.

b) Use of Estimates

The preparation of these financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Significant areas requiring the use of management estimates include the determination of impairment of exploration and evaluation assets, decommissioning liabilities, deferred income tax assets and liabilities, and assumptions used in valuing options and warrants in share-based compensation calculations. Actual results could differ from these estimates.

c) Cash

Cash includes cash and short-term money market investments that are readily convertible to cash with original maturities of 90 days or less from the original date of acquisition. Interest from cash is recorded on an accrual basis. The Company has designated cash as fair value through profit or loss. All gains and losses are recognized in income in the period in which they arise.

d) Short-term Investments

Short-term investments are classified as fair value through profit or loss and recorded at fair value with realized and unrealized gains and losses recognized in income. Their original maturity dates range from 91 days to 1 year from acquisition.

e) Mineral Exploration and Evaluation Expenditures

Mineral property acquisition costs and exploration and evaluation expenditures are recorded at cost. When shares are issued as part of mineral property exploration costs, they are valued at the closing share price on the date of issuance unless the fair value of goods or services received is determinable. Payments relating to a property acquired under an option or joint venture agreement, where payments are made at the sole discretion of the Company, are recorded in the accounts upon payment.

Option payments received are treated as a reduction of the carrying value of the related mineral property until the Company's option and/or royalty payments received are in excess of costs incurred and then are credited to operations.

All expenditures related to the cost of exploration and evaluation of mineral properties including acquisition costs for interests in mineral claims are classified and capitalized as intangible assets until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. These costs will be amortized over the estimated useful life of the property following commencement of commercial production or will be written off if the property is sold, allowed to lapse, abandoned or determined to be impaired.

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps, in accordance with industry standards, to verify mineral properties in which it has an interest. Although the Company has made efforts to ensure that legal title to its properties is properly recorded in the name of the Company when all terms of agreements have been met, there can be no assurance that such title will ultimately be secured.

Cash which is subject to contractual restrictions on use is classified separately as reclamation bonds. Reclamation bonds are classified as loans and receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Impairment of Non-financial Assets

Equipment and exploration and evaluation assets are regularly tested for recoverability or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Impairment of exploration and evaluation assets is generally considered to have occurred if one of the following factors are present: the rights to explore have expired or are near to expiry with no expectation of renewal, no further substantive expenditures are planned, exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered, indications in an area with development likely to proceed that the carrying amount is unlikely to be recovered in full by development or by sale.

The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Value in use is determined using discounted estimated future cash flows of the relevant asset. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are cash-generating units.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

g) Government Assistance and Tax Credits

Any federal or provincial tax credits received by the Company, with respect to exploration or evaluation work conducted on any of its properties, are credited as a reduction to the carrying costs of the property to which the credits related. Until such time that there is significant certainty with regard to collections and assessments, the Company will record any recovered tax credits at the time of receipt. No gain or loss is realized during the exploration stage until all carrying costs of the specific interest have been offset.

h) Investments

Investments other than derivatives are classified as available-for-sale, and are carried at quoted market value, where applicable, or at an estimate of fair value. Resulting unrealized gains net of applicable deferred income taxes, or losses, are reflected in other comprehensive income while realized gains, net of income taxes, or losses are recognized in income.

i) Equipment and Depreciation

Equipment is recorded at cost. Depreciation is recorded using a straight-line method based on the estimated future lives of the assets at rates ranging from two to five years. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

j) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period and any adjustment to income taxes payable in respect of previous periods. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the period-end date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Income Taxes (Continued)

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

k) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. At each financial position reporting date presented, the Company has not incurred any decommissioning costs related to the exploration and evaluation of its mineral properties, and accordingly, no provision has been recorded for such site reclamation or abandonment.

l) Share Capital

The Company records proceeds from share issuances net of issue costs. Shares issued for consideration other than cash are valued at the quoted price on the TSX-V on the date the shares are issued unless the fair value of goods or services received is determinable.

m) Loss per Common Share

Basic loss per common share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. Dilutive earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

n) Share-based Payments

The Company records all share-based payments at their fair value. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in net income/loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the good or services received in the statement of operations. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Share-based Payments (Continued)

Warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to share-based payments reserve. The Company uses the Black-Scholes ("B-S") option pricing model to estimate the fair value of share-based compensation.

o) Flow-through Shares

The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. When the common shares are offered, the difference ("premium") between the amount recognized in common shares and the amount the investors pay for the shares is recognized as a flow-through share related liability, which is reversed into the statement of operations within other income when the eligible expenditures are incurred. The amount recognized as flow-through share related liabilities represented the difference between the fair value of the common shares and the amount the investor pays for the flow-through shares.

p) Financial Instruments

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. All transactions related to financial instruments are recorded on a trade date basis.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2011, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

a) New accounting standards effective January 1, 2012

Amendments to IFRS 7, *Financial Instruments: Disclosures* - In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed interim financial statements.

IAS 12, *Income taxes* - In December 2010, the IASB issued an amendment to IAS 12 that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed interim financial statements.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

a) New accounting standards effective January 1, 2012 (Continued)

Amendments to IAS 1, *Presentation of Financial Statements* – In June 2011, the IASB and the Financial Accounting Standards Board ("FASB") issued amendments to standards to align the presentation requirements for other comprehensive income ("OCI"). The IASB issued amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1") to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

b) New accounting standards effective January 1, 2013

IFRS 9, *Financial Instruments* - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company:

IFRS 10, *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation - Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements.*

IFRS 11, *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

IFRS 12, *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

b) New accounting standards effective January 1, 2013 (Continued)

IFRS 13, *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27, *Separate Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, IFRS 9 to 13 and the amendments to other standards, is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

5. EXPLORATION AND EVALUATION ASSETS

Expenditures on interests in mineral properties are considered exploration and evaluation assets.

	Kena Property, British Columbia	Jersey and Emerald Properties, British Columbia	McLeese Lake Property, British Columbia	Stephens Lake Property, Manitoba	Mineral Property Interests 2011
Acquisition costs					
As at January 1, 2011	$ 527,861	$ 695,669	$ -	$ 1	**$1,223,531**
Incurred during the year	7,980	13,000	-	-	**20,980**
Option proceeds	-	(12,222)	-	-	**(12,222)**
As at December 31, 2011	535,841	696,447	-	1	**1,232,289**
Exploration and evaluation costs					
Incurred during the year					
Assays and analysis	5,069	134	-	-	**5,203**
Geological and geophysical	18,470	-	-	-	**18,470**
Site activities	8,458	51,472	1,649	-	**61,579**
Travel and accommodation	3,065	4,910	-	-	**7,975**
Tax credits recovered	(10,604)	(20,329)	-	-	**(30,933)**
	24,458	36,187	1,649	-	**62,294**
As at January 1, 2011	3,255,949	4,862,853	25,059	140	**8,144,001**
As at December 31, 2011	3,280,407	4,899,040	26,708	140	**8,206,295**
Balance, December 31, 2011	$ 3,816,248	$ 5,595,487	26,708	$ 141	**$9,438,584**

5. EXPLORATION AND EVALUATION ASSETS (Continued)

	Kena Property, British Columbia	Jersey and Emerald Properties, British Columbia	McLeese Lake Property, British Columbia	Stephens Lake Property, Manitoba	Mineral Property Interests 2010
Acquisition costs					
As at January 1, 2010	$ 515,636	$ 627,431	$ -	$ 1	$1,143,068
Incurred during the year	12,225	68,238	-	-	80,463
As at December 31, 2010	527,861	695,669	-	1	1,223,531
Exploration and evaluation costs					
Incurred during the year					
Assays and analysis	45,057	(5,026)	-	-	40,031
Drilling	197,101	61,412	-	-	258,513
Geological and geophysical	146,918	63,660	22,279	140	232,997
Site activities	18,651	37,042	-	-	55,693
Travel and accommodation	21,148	7,679	2,780	-	31,607
	428,875	164,767	25,059	140	618,841
As at January 1, 2010	2,827,074	4,698,086	-	-	7,525,160
As at December 31, 2010	3,255,949	4,862,853	25,059	140	8,144,001
Balance, December 31, 2010	$ 3,783,810	$ 5,558,522	$ 25,059	$ 141	$9,367,532

The impairment assessment of exploration and evaluation assets did not result in amounts being written off in the Company's properties.

a) Kena Property, Ymir, British Columbia, Canada

The Kena Property is comprised of the original Kena claims and additional properties under option. The properties are contiguous. The Kena property is located near the community of Ymir in southeastern British Columbia.

Kena Claims

The Company holds 100% of the original Kena Property claims. The property is subject to a 3.0% net smelter returns royalty ("NSR") on gold and silver and 1.5% on other metals. The Company has the right to purchase 50.0% of the NSR for the greater of 7,000 ounces of gold or $2,000,000 and must issue an additional 100,000 common shares on commencement of commercial production.

Daylight Claim Group

The Company holds 87.5% of the Daylight Claim Group, consisting of 8 crown grants. To exercise the option, the Company made total cash payments of $52,500 and issued 175,000 common shares. In addition, the agreement provides for the issuance of an additional 175,000 common shares to the optionors upon completion of a positive feasibility study recommending commercial production on the property. The properties are subject to royalties payable to the optionors of a 3.0% NSR from production of gold and silver and 1.5% NSR from the production of other metals. The Company has the right to reduce the NSR to 1.0% from the production of gold and silver and 0.5% from the production of other metals by a payment of $1,000,000 on or prior to the commencement of commercial production.

5. EXPLORATION AND EVALUATION ASSETS (Continued)

a) Kena Property, Ymir, British Columbia, Canada (Continued)

Daylight Claim Group (Continued)

On August 22, 2011, the Company entered into an Agreement with Ms. Janet Lynn Wirth (the "Optionor") to option the remaining 12.5% interest in the Daylight Claim Group, which was approved by the TSX-V on November 9, 2011. The Company has the exclusive right and option to acquire the 12.5% interest in the Property by making cash payments of $7,500 and issuing 25,000 common shares to the Optionor over a one-year period. The property is subject to royalties payable to the Optionor's 12.5% interest of a 3.0% NSR from production of gold and silver and 1.5% NSR from the production of other metals. The Company has the right to reduce the NSR to 1.0% from the production of gold and silver and 0.5% from the production of other metals by a payment of $125,000 on or prior to the commencement of commercial production. Also, the Property will be subject to share payment to the Optionor of 25,000 common shares upon completion of a positive feasibility study recommending commercial production on the property.

During the year ended December 31, 2011, the Company made a payment of $3,750 in cash and issued 12,500 common shares of the Company with a fair value of $500 to acquire the remaining 12.5% interest in the Daylight Claim Group.

Great Western Claim Group

The Company acquired 100% of the Great Western claim group, consisting of 3 claim units contiguous to the Kena property by making cash payments of $20,000 and issuing 356,250 common shares. In addition, the agreement provides for the issuance of a further 200,000 common shares on receipt of a positive feasibility study. The property is subject to a 3.0% NSR from production of gold and silver and 1.5% from production of other metals. The Company has the right to purchase 66.67% of the NSR for $1,000,000 on commencement of commercial production.

Tough Nut Claim Group

The Company holds 100% in three Tough Nut Claim Group claims, located on the north end of the Kena Property. The claims are subject to a 3.0% NSR from gold and silver. The Company has the right to purchase 66.67% of the NSR from the optionors for $2,000,000 at any time prior to commencement of commercial production.

Starlight Claim Group

The Company holds 100% of 4 claim units, known as the Starlight Claim Group, consisting of 3 crown grants and one mineral claim contiguous with the Kena Property. The property is subject to a 1.0% NSR from production of gold and silver and other metals. The Company has the right to purchase the NSR for $1,000,000 on commencement of commercial production.

Option Agreement with Altair Ventures Inc.

On December 30, 2011, the Company entered into an option Letter Agreement with Altair Ventures Inc. ("Altair"), whereby Altair has an option to earn a 60% interest in the Company's Kena Gold-Copper Property (the "Project") in British Columbia by completing $7,500,000 in Project related exploration expenditures over four years. The Altair Option has a term of 4 years commencing from December 30, 2011 (the "Effective Date").

5. EXPLORATION AND EVALUATION ASSETS (Continued)

a) Kena Property, Ymir, British Columbia, Canada (Continued)

Option Agreement with Altair Ventures Inc. (Continued)

To exercise the Option and earn its (60%) interest in the Project, Altair will:

i) make the following cash option payments to the Company:

(A) within 5 business days of receiving the TSX-V acceptance, $195,000 (received);
(B) within six months from the Effective Date, an additional $200,000;
(C) within eighteen months from the Effective Date, an additional $300,000;
(D) within thirty months from the Effective Date, an additional $300,000;
(E) within forty-two months from the Effective Date, an additional $400,000; and
(F) within forty-eight months from the Effective Date, an additional $600,000;

for total cash option payments of $2,000,000 including $5,000 received on signing of Letter Agreement;

ii) issue common shares of Altair to the Company as follows:

(A) within 5 business days of receiving the TSX-V acceptance, 500,000 shares (received);
(B) within six months from the Effective Date, an additional 500,000 shares;
(C) within eighteen months from the Effective Date, an additional 500,000 shares;
(D) within thirty months from the Effective Date, an additional 500,000 shares; and
(E) within forty-eight months from the Effective Date, an additional 666,667 shares;

for a total of 2,666,667 shares; and

iii) incur exploration expenditures as follows:

(A) within twelve months from the Effective Date, $1,500,000;
(B) within twenty-four months from the Effective Date, an additional $2,000,000;
(C) within thirty-six months from the Effective Date, an additional $2,000,000; and
(D) within forty-eight months from the Effective Date, an additional $2,000,000;

for total exploration expenditures of $7,500,000.

In addition, Altair will make bonus payments (“Reported Resource Bonus”) to the Company in accordance with the provisions set out below. Any and all amounts of the reported resource bonus are due and payable:

i) by the end of 6 months following the date on which the Company’s right to the subject bonus has been determined according to the provision set out below: and
ii) at the sole option of Altair, in cash or in shares of Altair.

If at the end of 51 months following the Effective date, Altair has elected not to give the First Option Extension Notice (as defined below), and the Parties have established that there are measured and indicated gold resources on the Project of not less than 2 million ounces at 0.3 gram/tonne cut-off, then Altair will pay a one-time lump sum $2 million Reported Resource Bonus to the Company.

5. EXPLORATION AND EVALUATION ASSETS (Continued)

a) Kena Property, Ymir, British Columbia, Canada (Continued)

Option Agreement with Altair Ventures Inc. (Continued)

If Altair elects to file the First Option Extension Notice, then at the end of 76 months following the Effective Date, Altair will pay a Reported Resource Bonus to the Company equal to the greater of:

i) $5 per ounce of probable and proven mineral reserves on the Project, determined at a 0.3 gram/tonne cut-off; and
ii) A one-time lump sum amount of $2 million, provided that this option is only applicable if and only if the Parties have by then established that there are measured and indicated gold resources on the Project of not less than 2 million ounces at a 0.3 gram/tonne cut-off.

b) Jersey and Emerald Properties, Salmo, British Columbia, Canada

The Company holds a 100% interest in the Jersey Claim Group located near Salmo, British Columbia. The property is subject to a 3.0% NSR that can be reduced to 1.5% by making payments of $500,000 and issuing 50,000 common shares. Annual advance royalty payments of $50,000 were to commence in October 2000. In October 2000, an amendment to the agreement extended the commencement of these royalty payments to 2004. In consideration for the extension, 200,000 common shares were issued to the royalty holders. In October 2004, the agreement was further amended to defer commencement of the royalty payments to October 2009, by the issuance of 200,000 common shares to the royalty holders.

In May 2009, the Company entered into an additional amendment to the option agreement to defer the commencement date of the annual royalty payments of $50,000 due to commence in October 2009 by a further four years, in exchange for a one-time payment of 250,000 common shares, and the right to collect mineral specimens from an exposure in the Jersey F Zone workings of the Jersey-Emerald property up to October 20, 2013, for the sole purpose of specimen collection.

Additional claims forming part of the properties include the Tungsten King Prospect, comprised of 17 crown-granted mineral claims. The Company acquired a 100% interest in these claims by issuing 100,000 shares of the Company. The Company also holds a 100% interest in the Truman Hill and Leroy North properties, additional properties in the Jersey and Emerald property group. The Truman Hill and Leroy north properties are subject to a NSR of 1.5% of which 50.0% can be purchased by issuing 25,000 shares of the Company. The Company also holds a 100% interest in the Summit Gold Property consisting of 4 mineral units and one reverted crown grant. The property is subject to a 2.0% NSR, which the Company has the right to purchase for $500,000. The Company holds a 100% interest in the Jumbo 2 and Boncher crown granted mineral claims.

In June 2006, the Company entered into a purchase agreement to acquire 100% of the rights, title and interest in the surface rights over 28 crown granted mineral claims, four 2-post claims and 80 mineral units located near Salmo, British Columbia. Under the terms of the agreement, the Company made a payment of $10,000 in cash, and agreed to make share payments in the aggregate value of $200,000. Share payments of 200,000 common shares were made annually on a value date four months after the date of issue, until the related liability was extinguished.

In November 2006, the Company acquired the surface rights on a section of the Jersey Claim Group at a cost of $100,000, inclusive of the initial option payment made on the property.

The Company completed a purchase agreement to acquire 100% of the rights, title and interest for the surface rights over 150 acres of land. Under the terms of the agreement, the Company made one cash payment of $50,000 and issued 150,000 common shares to the sellers for the purchase of the property. The acquisition is included in mineral property costs in Jersey-Emerald.

5. EXPLORATION AND EVALUATION ASSETS (Continued)

b) Jersey and Emerald Properties, Salmo, British Columbia, Canada (Continued)

The Company entered into a purchase agreement to acquire 100% of the rights, title and interest in the surface rights to 22 acres of land. Under the terms of the agreement, the Company made one cash payment of $18,100 and issued 30,000 common shares to the sellers.

Invincible Tungsten Mine

The Company acquired a 100% interest in the now decommissioned 7.4-hectare Invincible Tungsten Mine located south of Salmo, British Columbia. Under the agreement, the Company paid $3,000 and issued 9,000 common shares, subject to a 2.0% NSR, which the Company may, at its discretion, reduce to a 0.5% NSR by the payment of $150,000 after the completion of a positive feasibility study and by the payment of advance royalties of $3,000 per annum, commencing in 2010.

Victory Tungsten Property

In May 2009, the Company acquired a 100% interest in the Victory Tungsten Property, consisting of six reverted crown grants, located approximately six kilometres south of Salmo, British Columbia, Canada. Under the terms of the agreement, the Company made a cash payment of $12,000 and issued 200,000 common shares for the purchase of the property. The property is subject to a 2.0% NSR, payable to the optionor, which the Company has the right to reduce to 0.5% by making a one-time payment of $150,000 at any time up to and including the commencement of commercial production. If at any time the optionor wishes to sell or assign its NSR, the optionor has agreed to give the Company a 60-day right of first purchase to acquire the NSR, provided that the optionor shall not thereafter offer its NSR to a third party on terms less favourable to the optionor than those offered to the Company.

Garnet Lead-Zinc Property

In September 2009, the Company entered into an agreement to acquire a 100% interest in the Garnet Lead-Zinc Property, comprised of five mineral claims, Tenure Numbers 544860, 544861, 607011, 607013 and 607015, located approximately five kilometres south of Salmo, British Columbia, Canada. Under the terms of the agreement, the Company has an option to earn a 100% interest by making cash payments of $75,000 ($5,000 paid in 2010 and $10,000 paid in 2011) and issuing 500,000 common shares (100,000 issued in 2009, 100,000 issued in 2010, and 100,000 issued in 2011) to the optionors over four years. Upon making the cash payments and share issuances, the Company will acquire 100% right, title and interest in the property subject only to a 3.0% NSR, payable to the optionors and a further 200,000 common shares due on commencement of commercial production.

The Company may, at its discretion, have the exclusive right to reduce the NSR to 1.0% by making a one-time payment of $1,000,000 to the optionors exercisable within 90 days after commencement of commercial production. If at any time either of the optionors wishes to sell or assign this interest in the NSR in the property the optionors agree to give to the Company a 30-day right of first purchase to acquire such interest provided that the optionors shall not thereafter offer their NSR to a third party on terms more favourable than those offered to the Company.

During the year ended December 31, 2011, the Company issued 100,000 common shares of the Company with a fair value of $3,000 in relations to acquiring 100% interest in the Garnet Lead-Zinc Property.

5. EXPLORATION AND EVALUATION ASSETS (Continued)

b) Jersey and Emerald Properties, Salmo, British Columbia, Canada (Continued)

HB and HB2 Lead-Zinc Property

In October 2009, the Company entered into an agreement to acquire a 100% interest in the HB Lead-Zinc Property, comprised of a 100-hectare mineral claim, Tenure Number 533727, located approximately eight kilometres southeast of Salmo, British Columbia, Canada. Under the terms of the agreement, the Company has an option to earn a 100% interest in the property by making cash payments of $15,000 (paid) and issuing 100,000 common shares (issued) to the optionors over 12 months.

In March 2010 the Company entered into an agreement to acquire 100% of the rights and interest in the HB 2 Mineral Claim, Tenure 693188 located at UTM coordinates 5,443,100N and 485,600E near Salmo, British Columbia, Canada. Under the terms of the agreement, the Company acquired an undivided 100% interest in the property by making cash payments of $10,000 and issuing 100,000 common shares.

Aspen Lead-Zinc-Silver Property

In November 2009, the Company entered into an agreement to acquire a 100% interest in the Aspen Lead-Zinc-Silver Property, comprised of seven mineral claims, Tenure Numbers 548440, 548464 – 548467, 604689 and 665745 located approximately six kilometres southeast of Salmo, British Columbia, Canada.

Under the terms of the agreement, the Company paid $10,000 and issued 100,000 common shares to the optionors for the purchase of the property. Upon fulfilling the cash and share payments, the property will be subject only to a 1.0% NSR, payable to the optionors. The Company has the exclusive right to reduce the NSR to 0.5% by making a one-time payment of $100,000 to the optionors at any time up to and including the commencement of commercial production.

Option Agreement with Tunxsten Resources Ltd.

On November 17, 2011, the Company signed a Letter of Intent ("LOI") with Tunxsten Resources Ltd. ("Tunxsten") granting Tunxsten the exclusive option to acquire up to an undivided 65% interest in the Jersey Emerald Property (the "Property") located near Salmo, British Columbia, over a three year period from the Closing Date. Tunxsten will have the exclusive right to acquire up to an undivided 65% interest in the Property under the following terms of the LOI:

- Paying to the Company $250,000 upon receiving regulatory approval of the Definitive Agreement;
- Completing work program minimum exploration expenditures of $8,500,000;
- Paying to the Company a consulting fee of $450,000, with $150,000 advanced by Tunxsten on regulatory approval of the Definitive Agreement and $150,000 paid on each of the 1st and 2nd anniversary dates from regulatory approval of the Definitive Agreement; and
- Tunxsten assuming responsibility of equipment maintenance and existing net smelter royalties.

Upon earning its 65% interest, the Company and Tunxsten will form a Joint Venture by entering into a joint venture agreement for the further development of the Property by the Parties. Upon completion of a bankable feasibility study, Tunxsten will have the right to acquire an additional undivided 5% interest in the Property for a payment of $500,000 to the Company increasing Tunxsten's interest to 70%.

Upon receiving regulatory approval, Tunxsten agrees to provide the Company with a senior debt credit line of $150,000 upon which the Company may draw down the full amount immediately, such credit line having an interest rate of 5% per annum calculated quarterly, and not in advance, which principal amount and any accrued but unpaid interest will be due and payable three years from the Closing Date.

5. EXPLORATION AND EVALUATION ASSETS (Continued)

b) Jersey and Emerald Properties, Salmo, British Columbia, Canada (Continued)

Option Agreement with Tunxsten Resources Ltd. (Continued)

Upon execution of this LOI in November 2011, the Company received a deposit of $50,000 from Tunxsten and $25,000 of such $50,000 will be refundable to Tunxsten in the event that the LOI terminates or Tunxsten decides not to proceed with this agreement. If this agreement is executed, the $50,000 payment will be deducted from the $250,000 option payment under the LOI.

As at December 31, 2011, $12,222 option payments from Tunxsten were deducted from the Property and the remaining balance of $37,778 is recorded to deferred revenue. The LOI is currently subject to regulatory approval.

c) Stephens Lake Property, Manitoba, Canada

The Company is in a joint venture with ValGold Resources Ltd. and Cream Minerals Ltd. (the "Companies"). The Companies have 75% of the Trout Claim Group, which are internal to the claims forming the Stephens Lake Property. Under the terms of the Trout Claim Group agreement, the Companies each made cash payments of $36,667 and issued 66,667 common shares to the optionor over a 36-month period from July 22, 2004. The Company has written off all exploration and carrying costs on the property to a nominal carrying value of $1, as it has no exploration programs planned.

d) Mineral Property Interests Commitments

To maintain its mineral property interests, the Company is required to make monthly cash payments in fiscal 2012 of $750 for lease of surface property rights. In fiscal 2012, the Company will have to make cash payments of $23,750, and issue 112,500 common shares with respect to its mineral property interests held at December 31, 2011.

6. INVESTMENTS

	Number of Shares	**Book Value December 31, 2011**	**Fair Value December 31, 2011**	Fair Value December 31, 2010	Fair Value January 1, 2010
Emgold Mining Corporation (Note 9 (c))	1,565	$ 3,913	**$ 196**	$ 352	$ 548

As at December 31, 2011, investments in available-for-sale securities consist of marketable securities which had a market value of $196 (December 31, 2010 - $352; January 1, 2010 - $548). The carrying amount of these securities are subject to revaluation on a mark-to-market basis at the end of each reporting period, and the increases or decreases arising on revaluation are recorded in Accumulated Other Comprehensive Income ("AOCI"), a component of shareholders' equity.

7. EQUIPMENT

Cost	Computer Equipment	Field and Mining Equipment	Vehicles	Total
As at January 1, 2010	$ 11,856	$ 49,614	$ 26,271	$ 87,741
Additions	3,914	-	-	3,914
As at December 31, 2010	$ 15,770	$ 49,614	$ 26,271	$ 91,655
Additions	-	-	-	-
As at December 31, 2011	$ 15,770	$ 49,614	$ 26,271	$ 91,655
Accumulated Depreciation				
As at January 1, 2010	$ 10,963	$ 46,760	$ 18,763	$ 76,486
Depreciation	1,634	2,854	6,882	11,370
As at December 31, 2010	$ 12,597	$ 49,614	$ 25,645	$ 87,856
Depreciation	1,305	-	626	1,931
As at December 31, 2011	$ 13,902	$ 49,614	$ 26,271	$ 89,787
Carrying Amounts				
Balance, January 1, 2010	$ 893	$ 2,854	$ 7,508	$ 11,255
Balance, December 31, 2010	$ 3,173	$ -	$ 626	$ 3,799
Balance, December 31, 2011	**$ 1,868**	**$ -**	**$ -**	**$ 1,868**

8. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value

b) Issued and outstanding

See Statements of Changes in Equity.

On November 24, 2010, the Company completed a non-brokered private placement of 4,662,500 units. Each unit was comprised of one common share and one non-transferable share purchase warrant at a price of $0.08 per unit, for gross proceeds of $373,000. Each warrant is exercisable into one common share for a period of 24 months from the date of issue at an exercise price of $0.15 per share. A finder's fee of $1,600 was paid. The warrants were valued using a B-S pricing model using the following assumptions: weighted average risk free interest rate – 1.38%; a weighted volatility factor of 68%, and an expected life of two years. The value allocated to each of the warrants was $0.01.

8. SHARE CAPITAL (Continued)

c) Stock options

The Company has a stock option plan which allows for the grant of options to purchase up to 20,390,173 common shares. The following table summarizes information about the stock options outstanding at December 31, 2011:

Weighted Average Exercise Price	Number Outstanding at December 31, 2011	Weighted Average Remaining Contractual Life
$0.45	2,022,000	0.6 years
$0.29	2,310,000	0.8 years
$0.29	200,000	1.2 years
$0.10	4,930,000	2.5 years
$0.10	500,000	2.9 years
$0.22	9,962,000	1.7 years

A summary of the changes in stock options for the year ended December 31, 2011 and 2010 is presented below:

	Number of Options	Weighted Average Exercise Price
Balance, January 1, 2010	15,195,000	$0.20
Granted	200,000	$0.10
Expired	(1,500,000)	$0.10
Cancelled/forfeited	(240,000)	$0.10
Balance, December 31, 2010	13,655,000	$0.21
Expired	(2,155,000)	$0.17
Cancelled/forfeited	(1,538,000)	$0.20
Balance, December 31, 2011	**9,962,000**	**$0.22**
Balance vested, December 31, 2011	9,962,000	$0.22

For the year ended December 31, 2011, no stock options were granted to officers, directors, or employees of the Company. A summary of the fair values of stock options granted during the year ended December 31, 2010, estimated on the date of grant and using the B-S option-pricing model with weighted average assumptions, is as follows:

	2010
Risk free interest rate	1.9%
Expected life (years)	1.0 year
Expected volatility	65% - 93%
Weighted average fair value per option grant	$0.001 - $0.003

The B-S model was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. The Company’s stock options are not transferable and cannot be traded. The B-S model also requires an estimate of expected volatility. The Company uses historical volatility rates of the Company to arrive at an estimate of expected volatility.

8. SHARE CAPITAL (Continued)

d) Share purchase warrants

As at December 31, 2011, the following share purchase warrants issued in connection with financings made by private placements and short-form offerings were outstanding:

Number of Warrants	Exercise Price	Expiry Date
13,333,333	$0.12	June 30, 2014
706,666	$0.12	June 30, 2014
623,800	$0.05	June 30, 2014
1,498,400	$0.12	June 30, 2014
4,662,500	$0.15	November 24, 2012
20,824,699	$0.13	

The following table summarizes changes in the number of warrants outstanding:

	Number Of Warrants	Weighted Average Exercise Price
Balance, January 1, 2010	17,785,999	$0.06
Issued	4,662,500	$0.15
Exercised	(1,623,800)	$0.05
Balance, December 31, 2011 and 2010	**20,824,699**	**$0.13**

e) Shareholder rights plan

The Company’s board of directors approved the adoption of a Shareholder Rights Plan (the "Rights Plan") on June 28, 2010, and the Rights Plan will expire on June 28, 2013.

The Shareholder Rights Plan has been designed to protect shareholders from unfair, abusive or coercive take-over strategies including the acquisition of control of the Company by a bidder in a transaction or series of transactions that may not treat all shareholders fairly nor afford all shareholders an equal opportunity to share in the premium paid upon an acquisition of control. The Shareholder Rights Plan was adopted to provide the Board with sufficient time, in the event of a public take-over bid or tender offer for the common shares, to pursue alternatives which could enhance shareholder value.

This Shareholder Rights Plan is not being adopted in response to any proposal to acquire control of the Company.

The Rights will not, however, be triggered by a "Permitted Bid", which is defined as a bid which is outstanding for a minimum of 60 days made to all of the shareholders of the Company for all of their common shares and, subject to other specified conditions, is accepted by a majority of independent shareholders (as detailed in the Rights Plan).

9. RELATED PARTY TRANSACTIONS AND BALANCES

Services rendered and reimbursement of expenses:	Years ended December 31, 2011	2010
Quorum Management and Administrative Services Inc. (a)	**$ 26,125**	$ 234,915
Lang Mining Corporation (b)	**30,000**	30,000
Directors' fees	**42,000**	42,000
Short term employee benefit (e)	**255,788**	255,209

Balances payable to (receivable from) (d):	December 31, 2011	December 31, 2010	January 1, 2010
Quorum Management and Administrative Services Inc. (a)	**$ 413**	$ 8,357	$ (5,334)
Directors' fees	**12,761**	2,800	48,000
Short term employee benefit (e)	**14,915**	–	–
Lang Mining Corporation (b)	**8,400**	–	–
	$ 36,489	$ 11,157	$ 42,666

The Company has identified its directors and certain senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties as follows:

a) Management, administrative, geological and other services are provided by Quorum Management and Administrative Services Inc. ("Quorum") at market rates for the rental of office space and services provided by Quorum.

b) Lang Mining Corporation ("Lang Mining") is a private company controlled by the chairman of the Company. Lang Mining receives a management fee of $2,500 per month for the services of Frank A. Lang, an officer and director of the Company.

c) The Company's investments include shares in a listed company with a common director.

d) Balances payable to and receivable from related parties are included in due to and due from related parties, respectively, on the statements of financial position. These amounts are non-interest bearing and are due on demand.

e) Key management personnel compensation.

10. INCOME TAXES

The following table reconciles the amount of income tax recovery on application of the combined statutory Canadian federal and provincial income tax rates:

		December 31, 2011		December 31, 2010
Comprehensive loss for the year	**$**	**(584,000)**	$	(830,000)
Combined statutory tax rate		**26.5%**		28.5%
Income tax recovery at combined statutory rate		**(155,000)**		(236,000)
Benefits from losses not previously recognized and other		**(430,000)**		222,000
Effect of change in future tax rates		**8,000**		29,000
Change in valuation allowance		**577,000**		(15,000)
Tax recovery for the year	**$**	**–**	$	–

The Company's unrecognized deductible temporary differences and unused tax losses are attributable to the following items:

		December 31, 2011		December 31, 2010
Non-capital losses	**$**	**1,423,000**	$	1,235,000
Capital losses		**4,000**		4,000
Temporary difference in value for exploration and evaluation assets		**1,929,000**		1,728,000
Other deductible temporary differences		**230,000**		42,000
Deferred tax balances		**3,586,000**		3,009,000
Valuation allowance		**(3,586,000)**		(3,009,000)
	$	**-**	$	-

The realization of income tax benefits related to these future potential tax deductions is uncertain and cannot be viewed as more likely than not. Accordingly, no future income tax assets have been recognized for accounting purposes.

The Company has Canadian non-capital losses carried forward of approximately $5,689,000 (2010 - $4,940,000) that may be available for tax purposes. The losses expire as follows:

Year	$
2014	540,000
2015	489,000
2026	626,000
2027	659,000
2028	853,000
2029	971,000
2030	837,000
2031	714,000
	5,689,000

The Company has resource pools of approximately $17,154,000 (2010 - $16,187,000) available to offset future taxable income. The tax benefit of these amounts is available to be carried forward indefinitely. The Company also has investment tax credits totalling approximately $262,000 (2010 - $318,000).

11. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at December 31, 2011, the classification of the financial instruments, as well as their carrying values and fair values, with comparative figures for December 31, 2010, are shown in the table below:

	December 31, 2011		December 31, 2010	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Financial assets				
Cash	**$ -**	**$ -**	$ 187,177	$ 187,177
Short-term investments	**82,250**	**82,250**	497,250	497,250
Accounts receivable	**57,155**	**57,155**	52,772	52,772
Investments	**196**	**196**	352	352
Financial liabilities				
Cheques written in excess of funds on deposit	**19,932**	**19,932**	-	-
Accounts payable and accrued liabilities	**79,983**	**79,983**	114,260	114,260
Due to related parties	**36,489**	**36,489**	11,157	11,157

The fair values of the Company's financial instruments measured at December 31, 2011 and 2010, constitute Level 1 measurements for its cash, short-term investments and investments within the fair value hierarchy.

The Company recognized interest income during the year ended December 31, 2011, totaling $3,340. This is primarily interest income from the Company's short-term investments. This balance represents interest income from all sources.

The Company recognized interest income during the year ended December 31, 2010, totaling $21,425. Of this amount, $7,675 represents interest income from the Company's short-term investments, and the balance is $13,750 in revenue from filming conducted on one of the Company's mineral property interests in fiscal 2010. These short-term investments had a weighted average yield of approximately 0.95%.

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk at the statement of financial position date under its financial instruments is summarized as follows:

	December 31, 2011	December 31, 2010
Accounts and other receivables -		
Currently due	**$ 57,155**	$ 52,772
Past due by 90 days or less, not impaired	**--**	--
Past due by greater than 90 days, not impaired	**--**	--
	57,155	52,772
Cash	**–**	187,177
Short-term investments	**82,250**	497,250
	$ 139,405	$ 737,199

11. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

Those financial assets that potentially subject the Company to credit risk are primarily its investment in marketable securities of publicly-traded companies and any receivables. The Company has increased its focus on credit risk given the impact of the current economic climate. The Company considers the risk of material loss to be significantly mitigated due to the financial strength of the major financial institutions where term deposits are held. The Company's maximum exposure to credit risk as at December 31, 2011 and 2010 is the carrying value of its financial assets.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements as well as the growth and development of its mineral property interests. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in Note 12, in normal circumstances. The Company's financial liabilities are comprised of its accounts payable and accrued liabilities, and amounts due to related parties, the contractual maturities of which at December 31, 2011 and 2010, are summarized as follows:

	December 31, 2011	December 31, 2010
Accounts payable and accrued liabilities with contractual maturities –		
Within 90 days or less	**$ 79,983**	$ 114,260
In later than 90 days, not later than one year	**--**	--
Due to related parties with contractual maturities		
Within 90 days or less	**36,489**	11,157
In later than 90 days, not later than one year	**--**	--

Market risks
The significant market risks to which the Company is exposed include commodity price risk, interest rate risk and foreign exchange risk.

- Commodity price risk
  The Company's ability to raise capital to fund exploration or evaluation activities is subject to risk associated with fluctuations in the market prices of gold, copper, zinc, lead, molybdenum and tungsten, and the outlook for these metals. The Company's ability to raise capital is affected by the prices of commodities that the Company is exploring for on its mineral property interests. The Company does not have any hedging or other derivative contracts respecting its operations.

  Market prices for these metals have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company has elected not to actively manage its commodity price risk.

- Interest rate risk
  The Company has no significant exposure at December 31, 2011 and 2010, to interest rate risk through its financial instruments.

11. FINANCIAL INSTRUMENTS (Continued)

Market risks (Continued)

- Currency risk
  Fluctuations in United States dollars would not significantly impact the operations and the values of its assets and shareholders' equity at this time. If the Company were to go into production, the Company would be subject to more foreign currency risk from fluctuations in the Canadian dollar relative to the United States dollar, due to metals prices and their denomination in United States dollars.

12. MANAGEMENT OF CAPITAL

The Company's objective in managing capital is to maintain adequate levels of funding to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral property interests in British Columbia and to maintain a flexible capital structure which will optimize the costs of capital.

The Company endeavours to manage its capital structure in a manner that provides sufficient funding for operational activities through funds primarily secured through equity capital obtained in private placements. There can be no assurances that the Company will be able to continue raising capital in this manner.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will be able to continue this form of financing due to the current difficult conditions. The Company makes adjustments to its management of capital in the light of changes in economic conditions and the risk characteristics of its assets, seeking to limit shareholder dilution and optimize its costs of capital while maintaining an acceptable level of risk. The Company currently has sufficient funds for operations but must rely on equity financings, or forms of joint venture or other types of financing to continue exploration and development work and to meet its administrative overhead costs in future years (See Note 2(b)).

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities allowing the Company to withdraw funds at intervals needed for the expected timing of expenditures in its operations.

13. ADOPTION OF IFRS

a) Transition to IFRS

The Company has adopted IFRS effective January 1, 2011 with a transition date of January 1, 2010. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP.

The comparative information presented in these financial statements for the year ended December 31, 2010 and the opening financial position as at January 1, 2010 (the "Transition Date") have been prepared in accordance with the accounting policies referenced in Note 3 and IFRS 1, *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1").

13. ADOPTION OF IFRS (Continued)

b) Initial elections upon adoption

The Company adopted IFRS in accordance with IFRS 1 which requires the retrospective application of IFRS at the Transition Date with all adjustments to assets and liabilities taken to deficit, subject to mandatory exceptions and the application of optional exemptions. The IFRS 1 exceptions applied in the conversion from Canadian GAAP to IFRS by the Company are explained as follows:

i) Share-based payments – The Company elected under IFRS 1 to apply IFRS 2, *Share-Based Payments,* only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.

ii) Business combinations – The Company elected under IFRS 1 to not to apply IFRS 3, *Business Combinations,* retrospectively to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

iii) Compound financial instruments – The Company has elected under IFRS 1 not to retrospectively separate the liability and equity components of any compound instruments for which the liability component is no longer outstanding at the Transition Date.

c) Estimates

IFRS 1 does not permit changes to estimates previously made. Accordingly, estimates used at the Transition Date are consistent with estimates made at the same date under Canadian GAAP.

d) Reconciliation between Canadian GAAP and IFRS

In preparing the Company's IFRS Transition Date statement of financial position, management noted that adjustments related to flow-through shares were necessary to be made by the Company previously in its financial statements prepared in accordance with previous Canadian GAAP.

Flow-through shares

Under Canadian GAAP, when flow-through shares are issued, they are initially recorded in share capital at their issue price less the deferred tax liability related to the renounced expenditures. Under IFRS, flow-through shares are recognized based on the quoted price of the existing shares on the date the Company and the investors agree to the transaction. The difference ("premium") between the amount recognized in common shares and the amount the investors pay for the shares is recognized as a flow-through share related liability, which is reversed into the statement of operations within other income when the eligible expenditures are incurred. The amount recognized as flow-through share related liabilities represented the difference between the fair value of the common shares and the amount the investor pays for the flow-through shares.

The cumulative premium and renunciation adjustment as at January 1, 2010 related to flow-through shares issued before January 1, 2010 is $5,426. As at December 31, 2011, no additional cumulative premium and renunciation adjustment were identified under IFRS.

13. ADOPTION OF IFRS (Continued)

d) Reconciliation between Canadian GAAP and IFRS (Continued)

Share-based compensation

The Company adjusted the share-based compensation expense relating to performance based share options held by non-employees of the Company due to a change in measurement date under IFRS. As a result, an adjustment of $5,031 was required on the application of IFRS 2 at the transition date and an adjustment of $4,046 was required for the year ended December 31, 2010.

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

Statement of Financial Position	January 1, 2010 Canadian GAAP	Effect of IFRS Transition	January 1, 2010 IFRS
Total Assets	$ 10,515,610	$ –	$ 10,515,610
Total Liabilities	$ 126,694	$ –	$ 126,694
Shareholders' Equity			
Share capital	22,297,139	(5,426)	22,291,713
Warrants	328,289	–	328,289
Share-based payments reserve	3,298,134	5,031	3,303,165
Accumulated other comprehensive loss	(3,366)	–	(3,366)
Deficit	(15,531,280)	395	(15,530,885)
Total Shareholders' Equity	10,388,916	–	10,388,916
Total Liabilities and Shareholders' Equity	$ 10,515,610	$ –	$ 10,515,610

The December 31, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

Statement of Financial Position	December 31, 2010 Canadian GAAP	Effect of IFRS Transition	December 31, 2010 IFRS
Total Assets	$ 10,149,609	$ –	$ 10,149,609
Total Liabilities	$ 125,417	$ –	$ 125,417
Shareholders' Equity			
Share capital	22,721,400	(5,426)	22,715,974
Warrants	368,616	–	368,616
Share-based payments reserve	3,298,582	9,077	3,307,659
Accumulated other comprehensive loss	(3,562)	–	(3,562)
Deficit	(16,360,844)	(3,651)	(16,364,495)
Total Shareholders' Equity	10,024,192	–	10,024,192
Total Liabilities and Shareholders' Equity	$ 10,149,609	$ –	$ 10,149,609

13. ADOPTION OF IFRS (Continued)

d) Reconciliation between Canadian GAAP and IFRS (Continued)

The December 31, 2010 Canadian GAAP statement of operations and comprehensive loss has been reconciled to IFRS as follows:

Statement of Operations and Comprehensive Loss	Year Ended December 31, 2010 Canadian GAAP	Effect of IFRS Transition	Year Ended December 31, 2010 IFRS
Total expenses	$ (829,564)	$ (4,046)	$ (833,610)
Net loss for the year	(829,564)	–	(833,610)
Unrealized loss on investment	(196)	–	(196)
Comprehensive loss for the year	$ (829,760)	$ (4,046)	$ (833,806)

There are no material differences between the statements of cash flows presented under IFRS and the statements of cash flows presented under previous Canadian GAAP. As a result, no reconciliation is presented for the statements of cash flows.

14. COMMITMENTS

The Company's commitment for annual minimum future lease payments under the office rental agreement is as follows:

Not later than one year	$27,280
Later than one year and not later than five years	–

15. SUBSEQUENT EVENT

On February 3, 2012, the Company completed its previously announced non-brokered private placement, of 4,000,000 units (the "units") at a price of $0.05 per unit, for gross proceeds of $200,000. Each unit is comprised of one common share in the capital of the Company and one non-transferable share purchase warrant. Each whole warrant is exercisable into one common share for a period of 24 months from the date of issue at an exercise price of $0.10 per share. Officers and directors of the Company have participated in this private placement by purchasing a total of 1,640,000 units.