Condensed Interim Financial Statements of

# MANITOU GOLD INC.

Three months ended March 31, 2011
(Unaudited – prepared by management)

# NOTICE TO READER

The condensed interim balance sheets of Manitou Gold Inc. as at March 31, 2011 and December 31, 2010, as well as the condensed interim statements of income and comprehensive income, changes in equity, and cash flows for the three month periods ended March 31, 2011 and 2010 have been compiled by management.

No audit or review to verify the accuracy or completeness of the information contained in these financial statements has been performed by the Company's auditors. Readers are cautioned that these statements may not be appropriate for their purposes.

June 27, 2011

# Manitou Gold Inc.

Condensed Interim Balance Sheets

As at March 31, 2011, with comparative figures as at December 31, 2010 and January 1, 2010
(Unaudited - prepared by management)

| | | March 31 2011 | December 31 2010 (note 12) | January 1 2010 (note 12) |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash and cash equivalents | $ | 11,634,696 | 2,749,324 | 234,802 |
| Prepaid expenses and other sundry assets | | 148,684 | 99,578 | 14,858 |
| | | 11,783,380 | 2,848,902 | 249,660 |
| Deferred share issuance costs | | - | - | 86,238 |
| Capital assets | | 1,415 | 1,609 | 1,703 |
| Mineral properties and deferred exploration costs (note 7) | | 4,672,305 | 3,842,236 | 707,156 |
| | $ | 16,457,100 | 6,692,747 | 1,044,757 |
| **Liabilities and Shareholders' Equity** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | $ | 422,311 | 114,408 | 196,115 |
| Flow through premium liability | | 293,878 | 1,081,000 | 154,917 |
| | | 716,189 | 1,195,408 | 351,032 |
| Deferred income tax | | 226,125 | - | - |
| Total liabilities | | 942,314 | 1,195,408 | 351,032 |
| **Shareholders' equity:** | | | | |
| Share capital (note 8) | | 13,000,458 | 5,555,890 | 813,406 |
| Contributed surplus | | 616,500 | 661,500 | 137,000 |
| Warrants (note 9) | | 2,501,550 | 326,100 | - |
| Deficit | | (603,722) | (1,046,151) | (256,681) |
| | | 15,514,786 | 5,497,339 | 693,725 |
| | $ | 16,457,100 | 6,692,747 | 1,044,757 |

See accompanying notes to condensed interim financial statements.

Approved on behalf of the Board:

*Ron Arnold* Director
Ron Arnold

*Richard Murphy* Director
Richard Murphy

# Manitou Gold Inc.

Condensed Interim Statement of Income and Comprehensive Income

Three months ended March 31, 2011,
with comparative figures for the three month period ended March 31, 2010
(Unaudited - prepared by management)

| | | 2011 | 2010 (note 12) |
|---|---|---|---|
| General and administrative expenses | | | |
| Office and administrative | $ | 125,104 | 64,722 |
| Professional fees | | 2,336 | 9,061 |
| Project generation and evaluation | | 2,577 | - |
| Depreciation | | 194 | 128 |
| Loss from operations | | 130,211 | 73,911 |
| Finance charges | | | |
| Flow through premium income | | (787,122) | (154,917) |
| Interest revenue | | (11,643) | (1,382) |
| | | (798,765) | (156,299) |
| **Net income before income tax** | | 668,554 | 82,388 |
| Income taxes | | | |
| Deferred income tax | | 226,125 | - |
| **Net income and comprehensive income for the period** | $ | 442,429 | 82,388 |
| Net income per share - basic | $ | 0.02 | - |
| Weighted average shares outstanding - basic | | 27,968,389 | 13,366,438 |

See accompanying notes to condensed interim financial statements.

# Manitou Gold Inc.

Condensed Interim Statement of Changes in Equity

Three months ended March 31, 2011,
with comparative figures for the three month period ended March 31, 2010
(Unaudited - prepared by management)

| | | Share Capital | Warrants | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|---|
| Balance, January 1, 2011 (note 12) | $ | 5,555,890 | 326,100 | 661,500 | (1,046,151) | 5,497,339 |
| Net income for the period | | - | - | - | 442,429 | 442,429 |
| Shares and warrants issued on private placement | | 10,010,000 | - | - | - | 10,010,000 |
| Compensation shares and warrants issued | | 110,000 | - | - | - | 110,000 |
| Allocated to warrants | | (1,560,000) | 1,560,000 | - | - | - |
| Compensation warrants issued | | - | 620,000 | - | - | 620,000 |
| Shares issued on property acquisition | | 110,250 | - | - | - | 110,250 |
| Options exercised | | 135,000 | - | (45,000) | - | 90,000 |
| Warrants exercised | | 186,550 | (4,550) | - | - | 182,000 |
| Share issue costs | | (1,547,232) | - | - | - | (1,547,232) |
| Balance, March 31, 2011 | $ | 13,000,458 | 2,501,550 | 616,500 | (603,722) | 15,514,786 |

| | | Share Capital | Warrants | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|---|
| Balance, January 1, 2010 (note 12) | $ | 813,406 | - | 137,000 | (256,681) | 693,725 |
| Net income for the period | | - | - | - | 82,388 | 82,388 |
| Shares and warrants issued on initial public offering | | 2,000,000 | | - | - | 2,000,000 |
| Shares and warrants issued on private placement | | 250,000 | - | - | - | 250,000 |
| Compensation shares and warrants issued | | 60,000 | | - | - | 60,000 |
| Allocated to warrants | | (46,200) | 46,200 | - | - | - |
| Compensation warrants issued | | | 9,000 | - | - | 9,000 |
| Shares issued on property acquisition | | 739,020 | - | - | - | 739,020 |
| Share issue costs | | (422,169) | - | - | - | (422,169) |
| Balance, March 31, 2010 (note 12) | $ | 3,394,057 | 55,200 | 137,000 | (174,293) | 3,411,964 |

See accompanying notes to condensed interim financial statements.

# Manitou Gold Inc.

Condensed Interim Statement of Cash Flows

Three months ended March 31, 2011,
with comparative figures for the three month period ended March 31, 2010
(Unaudited - prepared by management)

| | | 2011 | 2010 (note 12) |
|---|---|---|---|
| **Cash flows from (used in) operating activities:** | | | |
| Net income for the period | $ | 442,429 | 82,388 |
| Adjustments for: | | | |
| Flow through premium income | | (787,122) | (154,917) |
| Deferred income tax | | 226,125 | - |
| Depreciation | | 194 | 128 |
| | | (118,374) | (72,401) |
| Changes in non-cash working capital: | | | |
| Prepaid expenses and other sundry assets | | (49,106) | (34,742) |
| Accounts payable and accrued liabilities | | 307,903 | (110,425) |
| | | 140,423 | (217,568) |
| **Cash flows from financing activities:** | | | |
| Issuance of shares and warrants | | 9,464,768 | 1,983,069 |
| | | 9,464,768 | 1,983,069 |
| **Cash flows used in investing activities:** | | | |
| Mineral properties and deferred exploration costs | | (719,819) | (83,287) |
| | | (719,819) | (83,287) |
| **Net increase in cash and cash equivalents** | | 8,885,372 | 1,682,214 |
| Cash and cash equivalents, beginning of period | | 2,749,324 | 234,802 |
| **Cash and cash equivalents, end of period** | $ | 11,634,696 | 1,917,016 |

See accompanying notes to condensed interim financial statements.

## 1. Nature of operations and basis of presentation:

a) Nature of operations:

Manitou Gold Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) and is engaged in the business of locating and exploring mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The Company's registered office is located at 101-957 Cambrian Heights Drive, Sudbury, Ontario.

b) Basis of presentation:

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for interim financial periods, as further described in note 3 and note 12. They do not include all of the information and footnotes required by IFRS for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation in accordance with IFRS of the Company's three month interim period ended March 31, 2011 have been included in these financial statements. Operating results for the three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2011

These condensed interim financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. The condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

There condensed interim financial statements were approved by the Company's Audit Committee on June 27, 2011.

## 2. Statement of compliance:

Entities that adopt IFRS are required to make an explicit and unreserved statement in their first annual IFRS financial statements of compliance with IFRS. The Company will make this statement when it issues its financial statements for the year ended December 31, 2011.

## 2. Statement of compliance (continued):

As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34") and IFRS 1, First-time Adoption of IFRS ("IFRS 1"). These financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and the International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out in note 3 were consistently applied to all the periods presented unless otherwise stated below.

The Company's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Previous Canadian GAAP"). Previous Canadian GAAP differs in some areas from IFRS. In preparing these unaudited condensed financial statements, management has amended certain accounting, valuation and consideration methods previously applied in the Previous Canadian GAAP financial statements to comply with IFRS. Comparative figures for 2010 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of the Company's unaudited condensed interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS have been included in this interim report. Reconciliations and descriptions of the effect of the transition from Previous Canadian GAAP to IFRS on equity, earnings and comprehensive income are described in Note 12.

The preparation of financial statements in accordance with IAS 34 requires the use of certain accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

## 3. Significant accounting policies:

a) Cash and cash equivalents:

Cash and cash equivalents include bank deposits and highly liquid money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates

b) Property, plant and equipment:

Computer equipment is recorded at cost and amortized on the declining balance basis at 30% per annum. Computer software is recorded at cost and amortized on a straight line basis at 100% per annum.

**3. Significant accounting policies (continued):**

c) Impairment:

The carrying value of all categories of property, plant and equipment, as well as mineral properties and deferred exploration costs are reviewed at each reporting date for impairment whenever events or circumstances indicate the recoverable amount may be less than the carrying amount.

An impairment loss is recognized when the carrying value of an asset held for use exceeds its estimated recoverable amount. Impairment losses are recognized in other expenses. Assumptions, such as gold price, discount rate, and expenditures, underlying the fair value estimates are subject to risks and uncertainties. Impairment charges are recorded in the reporting period in which determination of impairment is made by management.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the 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 depletion or amortization, if no impairment loss had been recognized.

d) Mineral properties and deferred exploration costs :

All direct costs related to the acquisition and exploration of specific properties are capitalized as incurred. If a property is brought into production, these costs will be amortized against the income generated from the property. If a property is abandoned, sold or impaired, an appropriate charge will be made. Discretionary option payments arising on the acquisition of mining properties are only recognized when paid. Amounts received from other parties to earn an interest in the Company's mining properties are applied as a reduction of the mining property and deferred exploration costs, except for administrative reimbursements which are credited to operations. Any payment received that is in excess of the carrying value of the respective mineral property as recognized as income.

The amounts shown for mining claims and related deferred costs represent costs incurred to date, less amounts expensed and reimbursements, and do not necessarily reflect present or future values of the particular properties.

**3. Significant accounting policies (continued):**

d) Mineral properties and deferred exploration costs (continued):

The recoverability of the amounts shown for mineral exploration projects is dependent on the existence of economically recoverable reserves, the ability to obtain financing to complete the development of such reserves and meet obligations under various agreements, and the success of future operations or dispositions. If a project does not prove viable, all unrecoverable costs associated with the project net of any related impairment provisions are written off.

e) Income taxes:

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in the statement of income and comprehensive income except to the extent that it relates to items recognized directly in equity.

*Current income taxes*

Current taxes are the expected taxes payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

*Deferred income taxes*

The Company accounts for income taxes under the asset and liability method. Under this method of tax allocation, deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases (temporary differences).

Deferred income taxes are measured using the tax rates that are expected to be in effect when the temporary differences are likely to reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect on deferred income tax assets and liabilities of a change in tax rates is included in earnings in the period in which the change is substantively enacted. The amount of deferred income tax assets recognized is limited to the amount that is probable to be realized.

*Flow Through Shares*

To the extent that the Company issues common shares to subscribers on a flow through basis at a premium to the market value of non-flow though common shares, any such premium is recorded as a liability on the Company's balance sheet at the time of subscription. This liability is reduced, on a pro-rata basis, as the Company fulfills its expenditure renunciation obligation associated with such flow through share issuances, with an offsetting amount recognized as income.

**3. Significant accounting policies (continued):**

e) Income taxes (continued):

*Flow Through Shares (continued)*

A deferred income tax liability equal to the tax value of flow through expenditures renounced is recognized once the Company has fulfilled its obligations associated with the renunciation of related flow through expenditures. In respect of a retrospective renunciation, such obligation is considered to have been fulfilled once related renunciation filings have been made with the appropriate taxation authorities. In respect of prospective renunciation (i.e., a look-back renunciation), the obligation is considered to be fulfilled once related flow through expenditures have been incurred.

f) Stock-based compensation:

The Company accounts for all equity-settled stock-based payments using a fair value based method incorporating the Black-Scholes model.

Under the fair value based method, compensation cost attributable to options granted is measured at fair value at the grant date and is either recorded at the date of grant, in the case of options that vest immediately, or amortized on a straight line basis over the vesting period or in the case of options that vest over a period of time. In the latter case, the amount recognized as an expense from time to time is adjusted to reflect any changes in the Company's estimate of the shares that will eventually vest and the effect of any non-market vesting conditions.

Share-based payment arrangements in which the Company receives goods or services as consideration are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

g) Earnings per share:

Basic earnings per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The dilutive effect of outstanding options and warrants and their equivalents are reflected in diluted earnings per share by the application of the treasury method. The computation of diluted earnings per share assumes conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share.

h) Share issuance costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received. Costs related to the issuance of capital stock and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

**3. Significant accounting policies (continued):**

i) Financial instruments - recognition and measurement:

The Company classifies all financial instruments as either held to maturity, fair value through profit or loss (`FVTPL`), loans and receivables, available for sale or other financial liabilities.

Held-to-maturity financial assets are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net income in the period in which they arise.

FVTPL financial instruments are carried at fair value with changes in fair value charged or credited to net income in the period in which they arise.

Loans and receivables are initially recognized at their fair values, with any resulting premium or discount from the face value being amortized to earnings using the effective interest method. Impairment losses are charged to net income in the period in which they arise.

Available-for-sale financial instruments are carried at fair value with changes in the fair value charged or credited to other comprehensive income. Impairment losses are charged to net earnings in the period in which they arise.

Other financial liabilities are initially measured at cost or amortized cost, net of transaction costs and any embedded derivatives that are not closely related to the financial liability, depending upon the nature of the instrument with any resulting premium or discount from the face value being amortized to net income using the effective interest method.

The methodology and assessment of inputs for determining the fair value of financial assets and liabilities, as well as the levels of hierarchy of the Company's financial assets and liabilities measured at fair value, remain unchanged from December 31, 2010.

The Company has classified its financial instruments as follows:

| **Financial instrument** | **Classification** |
|---|---|
| Cash and cash equivalents | Held for trading |
| Accounts receivable | Loans and receivables |
| Accounts payable and accrued liabilities | Other liabilities |

**3. Significant accounting policies (continued):**

j) Comprehensive Income:

Comprehensive income measures net earnings for the period plus other comprehensive income. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of foreign operations during the period. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income. To date, there has not been any other comprehensive income and, accordingly, net income equals comprehensive income.

**4. Future accounting pronouncements:**

The accounting pronouncements detailed in this note have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

a) IFRS 9 (Financial Instruments) replaces the current standard, IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. This standard is effective for annual periods beginning on or after July 1, 2011.

b) IFRS 10 (Consolidated Financial Statements) establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

c) IFRS 11 (Joint Arrangements) IFRS 11 establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted

**4. Future accounting pronouncements (continued):**

d) IFRS 12 (Disclosure of Involvement with Other Entities) 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. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

e) IFRS 13 (Fair Value Measurement) defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 (Share-based Payments); leasing transactions within the scope of IAS (17 Leases); measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 (Inventories); or value in use in IAS 36 (Impairment of Assets). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

f) IAS 27 (Separate Financial Statements) has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. This standard will not have an impact on the consolidated financial statements.

g) IAS 28 (Investments in Associates and Joint Ventures) prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

## 5. Accounting Estimates

The preparation of the Company's condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the unaudited condensed interim financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Information about significant areas of estimation uncertainty and judgements made by management in preparing the condensed financial statements are described as follows.

a) Impairment of Mineral Properties and Deferred Exploration Costs

As more fully described in Note 3(c), the Company assesses the carrying value of Mineral properties and deferred exploration costs each reporting period to determine whether any indication of impairment exists. The calculation of recoverable amount requires the use of estimates and assumptions such as long-term commodity prices, discount rates, recoverable metals, and operating performance.

b) Valuation of Stock Based Compensation

As more fully described in Note 3(f), calculation of the fair value of stock issued requires the use of estimates of inputs in the applicable stock option valuation models.

c) Contingencies

Due to the complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. In the opinion of management, these matters did not have a material effect on the Company's financial position or results of operations as at March 31, 2011.

d) Income Taxes

The interpretation of existing tax laws or regulations in Canada requires the use of judgement. Differing interpretation of these laws or regulations could result in an increase in the Company's taxes, or other governmental charges, duties or impositions. In addition, the recoverability of deferred income tax assets, including expected periods of reversal of temporary differences and expectations of future taxable income, are assessed by management at the end of each reporting period.

## 6. Financial Risk Factors

The Company is exposed to a credit risk, market risk (consisting of interest rate risk, currency risk, and other price risk), and liquidity risk.

a) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents are composed of financial instruments issued by large Canadian financial institutions with high investment-grade ratings maturing over various dates. The Company's recurring receivables consist primarily of Harmonized Sales Tax due from the Federal Government of Canada.

b) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices and is comprised of three types of risk: interest rate risk; currency risk; and other price risk.

(i) Interest rate risk arises because of changes in market interest rates. The Company's cash and cash equivalents are subject to minimal risk of changes in value and are readily convertible into cash.

(ii) Currency risk arises because of changes in foreign exchange rates. Nearly all of the Company's current activities are priced in Canadian dollars.. As such, the Company is currently exposed to minimal currency risk. In the event that the Company progresses from the exploration stage to the development stage, it will be exposed to an increased level of currency risk. However, such anticipated increased currency risk cannot be quantified at this time.

(iii) Other price risk arises because of changes in market prices other than those due to interest rates and currency changes. The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is the potential adverse impact on the Company's ability to raise new capital due to movement in the Company's equity price or general movement in the level of the stock market. Commodity price risk is the potential adverse impact on economic value of the Company's projects due to commodity price movements and volatilities. The Company monitors commodity prices of gold and copper, the price of the Company's stock, and the stock market in general, in order to assist in the determination of appropriate capital market funding transactions.

## 6. Financial Risk Factors (continued):

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities as they come due. The Company's investment policy is to invest its excess cash in high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of expenditures for continuing operations. Accounts payable and accrued liabilities are all current. The Company monitors its liquidity position and budgets future expenditures, in order to ensure that it will have sufficient capital to satisfy liabilities as they come due.

## 7. Mineral properties and deferred exploration costs:

a) A detailed continuity of expenditures capitalized to specific mineral properties during the year to date is as follows:

| | | Kenwest | Canamerica | Higbee | Sherridon | Gaffney Extension | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2011 | $ | 2,256,759 | 627,714 | 82,075 | 872,240 | 3,448 | 3,842,236 |
| Acquisition and carrying costs: | | | | | | | |
| Option payments made | | - | - | - | - | 127,750 | 127,750 |
| Filing fees | | 125 | - | - | - | 3,570 | 3,695 |
| Staking | | - | - | - | - | 13,474 | 13,474 |
| Property taxes | | 2,519 | - | - | - | - | 2,519 |
| | $ | 2,644 | - | - | - | 144,794 | 147,438 |
| Exploration expenditures: | | | | | | | |
| Analysis and lab work | | 27,756 | 4,888 | - | 476 | 1,188 | 34,308 |
| Consultants | | 3,550 | 175 | - | - | 19,827 | 23,552 |
| Drilling | | 385,622 | 61,685 | - | - | 9,310 | 456,617 |
| Field office | | 1,633 | - | - | 428 | - | 2,061 |
| Field supplies/consumables | | 9,620 | 9,952 | - | 245 | 3,222 | 23,039 |
| Line cutting | | - | 11,966 | - | - | 26,872 | 38,838 |
| Management fees | | 42,750 | 7,500 | - | - | 7,500 | 57,750 |
| Travel and accommodation | | 5,241 | 7,585 | - | - | - | 12,826 |
| Wages and benefits | | 30,222 | 2,666 | - | 13 | 739 | 33,640 |
| | $ | 506,394 | 106,417 | - | 1,162 | 68,658 | 682,631 |
| | $ | 509,038 | 106,417 | - | 1,162 | 213,452 | 830,069 |
| Balance, March 31, 2011 | $ | 2,765,797 | 734,131 | 82,075 | 873,402 | 216,900 | 4,672,305 |

## 7. Mineral properties and deferred exploration costs (continued):

b) A detailed continuity of expenditures capitalized to specific mineral properties during the comparative year to date is as follows:

| | | Kenwest | Canamerica | Higbee | Sherridon | Total |
|---|---|---|---|---|---|---|
| Balance, January 1, 2010 | $ | 369,637 | 206,112 | 59,646 | 71,761 | 707,156 |
| Expenditures incurred: | | | | | | |
| Shares issued | | 739,020 | - | - | - | 739,020 |
| Carrying costs | | 2,578 | - | - | - | 2,578 |
| Consultants | | 891 | 141 | 984 | - | 2,016 |
| Data management | | - | - | 844 | - | 844 |
| Field office | | 110 | 110 | 110 | 110 | 440 |
| Geophysics | | 14,425 | 8,577 | - | 7,797 | 30,799 |
| Insurance | | 106 | 106 | 106 | 106 | 424 |
| Line cutting | | - | 22,934 | 15,000 | - | 37,934 |
| Management fees | | 2,063 | 2,063 | 2,063 | 2,063 | 8,252 |
| | $ | 759,193 | 33,931 | 19,107 | 10,076 | 822,307 |
| Balance, March 31, 2010 | $ | 1,128,830 | 240,043 | 78,753 | 81,837 | 1,529,463 |

## 8. Share capital:

The change in share capital since December 31, 2010 is as follows:

| | Number of Shares | Amount |
|---|---|---|
| Balance at January 1, 2011 | 27,248,333 | $ 5,555,890 |
| Shares and warrants issued on private placements | 18,200,000 | 10,010,000 |
| Compensation shares and warrants | 200,000 | 110,000 |
| Allocated to warrants | - | (1,560,000) |
| Shares issued on property acquisition | 175,000 | 110,250 |
| Exercise of options | 300,000 | 135,000 |
| Exercise of warrants | 455,000 | 186,550 |
| Share issue Costs | - | (1,547,232) |
| Balance, March 31, 2011 | 46,578,333 | $ 13,000,458 |

### 9. Warrants:

The change in warrants since January 1, 2011 is as follows:

| | Number of warrants | | Amount |
|---|---|---|---|
| Balance, January 1, 2011 | 7,512,000 | $ | 326,100 |
| Warrants issued as part of unit (share and warrant) issuances | 6,000,000 | | 1,560,000 |
| Compensation warrants issued | 1,365,000 | | 620,000 |
| Warrants exercised | (455,000) | | (4,550) |
| Balance, March 31, 2011 | 14,422,000 | $ | 2,501,550 |

### 10. Stock options:

The change in stock options outstanding since January 1, 2011 is as follows:

| | Number | | Weighted average exercise price |
|---|---|---|---|
| Balance, January 1, 2011 | 2,610,000 | $ | 0.40 |
| Options exercised | (300,000) | | 0.30 |
| Balance, March 31, 2011 | 2,310,000 | $ | 0.41 |

### 11. Related Party Transactions:

During the period, the Company paid exploration management fees totaling $57,750 to a company controlled by the President of the Company and paid $2,295 of equipment rental charges to the President of the Company. During the period, the Company also paid $2,435 on a cost recovery basis, to a company with officers and directors in common, representing the reimbursement of the Company's proportionate share of general and administrative expenditures paid by the related company on behalf of both parties.

Salary paid to key management (defined as the CEO and the CFO of the Company) in respect of the three month period ended March 31, 2011 totaled $41,250.

### 12. First time adoption of IFRS:

For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles in effect up to December 31, 2010 (“Previous Canadian GAAP”). The Company transitioned from Previous Canadian GAAP to IFRS effective January 1, 2010. Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2010 as described in note 2. This note explains the principal adjustments made by the Company in restating its previous balance sheet as at January 1, 2010, which was prepared in accordance with Previous Canadian GAAP in addition to its previously published Previous Canadian GAAP financial statements for the year ended December 31, 2010.

**12. First time adoption of IFRS (continued):**

The Company's financial statements for the year ended December 31, 2011 will be the first annual financial statements that the Company will prepare in accordance with IFRS. The Company will ultimately prepare its opening IFRS balance sheet by applying existing IFRS with an effective date of December 31, 2011 or prior. Accordingly, the opening IFRS balance sheet and the December 31, 2010 comparative balance sheet presented in the financial statements for the year ended December 31, 2011 may differ from those presented at this time.

The balance of this note details the following (as they pertain to the adoption of IFRS): a) elections and exemptions applied, b) the reconciliation of Equity at each of January 1, 2010, March 31, 2010 and December 31, 2010, c) the reconciliation of Net Income and Comprehensive Income for the three months ended March 31, 2010 and the twelve months ended December 31, 2010, d) Notes to the reconciliation of Equity, Net Income and Comprehensive Income, and e) Impact on Statements of Cash flows.

**a) Elections and Exemptions Applied**

IFRS 1 (First-Time Adoption of International Financial Reporting Standards) allows first-time adopters certain elections and exemptions from the retrospective application of certain IFRSs effective for December 2010 year ends.

The Company has applied the following exemptions and elections:

- IFRS 3 (Business Combinations) – The Company has elected not to apply IFRS 3 retrospectively to acquisitions that occurred before January 1, 2010.
- IFRS 6 (Exploration and Evaluation Projects) – The Company has elected to continue to capitalize costs incurred related to Exploration and Evaluation Project incurred on or after the Company securing the legal right to explore related properties.
- IAS 16 (Property, Plant, and Equipment) - The Company has elected not to apply the optional exemption that allows the Company to measure fair value at the date of transition to IFRS and to use that fair value as its deemed cost at that date. Accordingly, the Company continued to record Property, Plant, and Equipment at historic cost at the date of transition to IFRS.
- IFRS 2 (Share-based payments) – The Company has elected not to apply IFRS 2 retrospectively in respect of options granted and vested prior to January 1, 2010

In addition, the Company applied a mandatory exception from retrospective application in respect of estimates. Pursuant to that mandatory exception, estimates applied to balances as at January 1, 2010 have reflected conditions as at that date and were consistent with estimates made for that date in accordance with Previous Canadian GAAP.

## 12. First time adoption of IFRS (continued):

### b) Reconciliation of Equity

(i) A reconciliation of Equity as at January 1, 2010 is as follows:

| | Previous Canadian GAAP | IAS 12 adjustment (note 12(d)) | IFRS 6 adjustment (note 12(d)) | IFRS |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ 234,802 | - | - | 234,802 |
| Prepaid expense and other sundry assets | 14,858 | - | - | 14,858 |
| Total current assets | 249,660 | - | - | 249,660 |
| Deferred share issuance costs | 86,238 | - | - | 86,238 |
| Property, plant and equipment | 1,703 | - | - | 1,703 |
| Mineral properties and deferred exploration costs | 721,334 | - | (14,178) | 707,156 |
| TOTAL ASSETS | $1,058,935 | - | (14,178) | 1,044,757 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | $ 196,115 | - | - | 196,115 |
| Flow through premium liability | - | 154,917 | - | 154,917 |
| Total current liabilities | 196,115 | 154,917 | - | 351,032 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | 968,323 | (154,917) | - | 813,406 |
| Contributed surplus | 137,000 | - | - | 137,000 |
| Deficit | (242,503) | - | (14,178) | (256,681) |
| Total shareholders' equity | 862,820 | (154,917) | (14,178) | 693,725 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $1,058,935 | - | (14,178) | 1,044,757 |

## 12. First time adoption of IFRS (continued):

### b) Reconciliation of Equity (continued)

(ii) A reconciliation of Equity as at March 31, 2010 is as follows:

| | Previous Canadian GAAP | IAS 12 adjustment (note 12(d)) | IFRS 6 adjustment (note 12(d)) | IFRS |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $1,917,016 | - | - | 1,917,016 |
| Prepaid expense and other sundry assets | 49,600 | - | - | 49,600 |
| Total current assets | 1,966,616 | - | - | 1,966,616 |
| Property, plant, and equipment | 1,575 | - | - | 1,703 |
| Mineral properties and deferred exploration costs | 1,543,641 | - | (14,178) | 1,529,463 |
| TOTAL ASSETS | $3,511,832 | - | (14,178) | 3,497,654 |

| | | | | |
|---|---|---|---|---|
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | $ 85,690 | - | - | 85,690 |
| | 85,690 | - | - | 85,690 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | 3,432,786 | (38,729) | - | 3,394,057 |
| Contributed surplus | 137,000 | - | - | 137,000 |
| Warrants | 55,200 | - | - | 55,200 |
| Deficit | (198,844) | 38,729 | (14,178) | (174,293) |
| Total shareholders' equity | 3,426,142 | - | (14,178) | 3,411,964 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $3,511,832 | - | (14,178) | 3,497,654 |

**12. First time adoption of IFRS (continued):**

**b) Reconciliation of Equity (continued)**

(iii) A reconciliation of Equity as at December 31, 2010 is as follows:

| | | Previous Canadian GAAP | IAS 12 adjustment (note 12(d)) | IFRS |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ | 2,749,324 | - | 2,749,324 |
| Prepaid expense and other sundry assets | | 99,578 | - | 99,578 |
| Total current assets | | 2,848,902 | - | 2,848,902 |
| Property, plant, and equipment | | 1,609 | - | 1,609 |
| Mineral properties and deferred exploration costs | | 3,842,236 | - | 3,842,236 |
| TOTAL ASSETS | $ | 6,692,747 | - | 6,692,747 |

| | | | | |
|---|---|---|---|---|
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | $ | 114,408 | - | 114,408 |
| Flow through premium liability | | - | 1,081,000 | 1,081,000 |
| Total current liabilities | | 114,408 | - | 1,195,408 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | | 6,675,619 | (1,119,729) | 5,555,890 |
| Contributed surplus | | 661,500 | - | 661,500 |
| Warrants | | 326,100 | - | 326,100 |
| Deficit | | (1,084,880) | 38,729 | (1,046,151) |
| Total shareholders' equity | | 6,578,339 | (1,081,000) | 5,497,339 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ | 6,692,747 | - | 6,692,747 |

### 12. First time adoption of IFRS (continued):

#### c) Reconciliation of Net Income and Comprehensive Income:

(i) A reconciliation of Net Income and Comprehensive Income for the three months ended March 31, 2010 is as follows:

| | Previous Canadian GAAP | IAS 12 adjustment (note 12(d)) | IFRS 6 adjustment (note 12(d)) | IFRS |
|---|---|---|---|---|
| General and administrative expenses | | | | |
| Office and administrative | $ 64,722 | - | - | 64,722 |
| Professional fees | 9,061 | - | - | 9,061 |
| Depreciation | 128 | - | - | 128 |
| Loss from operations | 73,911 | - | - | 73,911 |
| Finance charges | | | | |
| Interest income | 1,382 | - | - | 1,382 |
| Flow through share premium | - | 154,917 | - | 154,917 |
| Finance charges | 1,382 | 154,917 | - | 156,299 |
| Loss before income taxes | (72,529) | 154,917 | - | 82,388 |
| Deferred income tax recovery | (116,188) | 116,188 | - | - |
| Net income and comprehensive income | 43,659 | 38,729 | - | 82,388 |
| Deficit at beginning of period | (242,503) | - | (14,178) | (256,681) |
| Deficit at end of period | $(198,844) | 38,729 | (14,178) | (174,293) |
| Net income and comprehensive income per share - basic | $ Nil | Nil | - | 0.01 |
| Weighted average shares outstanding - basic | 13,366,438 | - | - | 13,366,438 |

## 12. First time adoption of IFRS (continued):

### c) Reconciliation of Net Income and Comprehensive Income (continued):

(ii) A reconciliation of Net Income and Comprehensive Income for the year ended December 31, 2010 is as follows:

| | Previous Canadian GAAP | IAS 12 adjustment (note 12(d)) | IFRS 6 adjustment (note 12(d)) | IFRS |
|---|---|---|---|---|
| General and administrative expenses | | | | |
| Office and administrative | $ 397,595 | - | - | 397,595 |
| Professional fees | 46,362 | - | - | 46,362 |
| Project generation and evaluation | - | - | 6,783 | 6,783 |
| Depreciation | 928 | - | - | 928 |
| Write down of deferred exploration costs | 20,961 | - | (20,961) | - |
| Stock-based compensation | 524,500 | - | - | 524,500 |
| Total expenditures | 990,346 | - | (14,178) | 976,168 |
| Finance charges | | | | |
| Interest income | 31,781 | - | - | 31,781 |
| Flow through share premium | - | 154,917 | - | 154,917 |
| Finance charges | 31,781 | 154,917 | - | 186,698 |
| Loss before income taxes | (958,565) | 154,917 | 14,178 | (789,470) |
| Deferred income tax recovery | (116,188) | 116,188 | - | - |
| Net loss and comprehensive loss | (842,377) | 38,729 | 14,178 | (789,470) |
| Deficit at beginning of period | (242,503) | - | (14,178) | (256,681) |
| Deficit at end of period | $ (1,084,880) | 38,729 | - | (1,046,151) |
| Net loss and comprehensive loss per share – basic | (0.04) | Nil | - | (0.03) |
| Weighted average shares outstanding - basic | 22,808,156 | - | - | 22,808,156 |

**12. First time adoption of IFRS (continued):**

**d) Reconciliation of Equity, Net Income and Comprehensive Income**

i) IAS 12 (Income taxes)

Accounting for transactions relating to the issuance of flow through shares in accordance with Previous Canadian GAAP was characterized by the following:

- Gross proceeds from the issuance of flow through shares were credited entirely to share capital (net of share issue costs).

- A future income tax liability equal to the tax value of flow through expenditures renounced was recognized at the time of renunciation of such expenditures (regardless of whether such renunciations were retrospective or prospective), with an offsetting debit to share issue costs. The recognition of such income tax liability was generally offset by the concurrent recognition of an offsetting future income tax asset in respect of tax assets not previously benefitted, with an offsetting credit to future income tax recovery.

Accounting for transactions relating to the issuance of flow through shares in accordance with IAS 12 (Income taxes) differs from Previous Canadian GAAP as follows:

- The portion of the gross proceeds from the issuance of flow through shares that is attributable to an issuance price premium in excess of non-flow through shares is considered to be proceeds from the "sale" of the tax benefits of flow through expenditures. At the time of issuance of such flow through shares, the proceeds from such sale is deferred and presented as liability on the Company's balance sheet. Upon the Company's fulfillment of its obligations associated with the renunciation of related flow through expenditures, the deferred proceeds are taken into income.

**12. First time adoption of IFRS (continued):**

**d) Reconciliation of Equity, Net Income and Comprehensive Income (continued)**

i) IAS 12 (Income taxes) (continued)

- A deferred income tax liability equal to the tax value of flow through expenditures renounced is recognized only once the Company has fulfilled its obligations associated with the renunciation of related flow through expenditures, with an offsetting debit to deferred tax expense. In respect of a retrospective renunciation, such obligation is considered to have been fulfilled once related renunciation filings have been made with the appropriate taxation authorities. In respect of prospective renunciation (i.e., a look-back renunciation), the obligation is considered to be fulfilled once related flow through expenditures have been incurred. Similar to previous Canadian GAAP, the recognition of each such deferred income tax liability in respect of flow through renunciation in accordance with IAS 12 has been offset by concurrent the recognition of an offsetting deferred income tax asset in respect of tax assets not previously benefitted, with an offsetting credit to deferred income tax recovery.

The impact of these differences is detailed under the column “IAS 12 adjustment” in the tables presented in each of notes 12(b)(i), 12(b)(ii), 12(b)(iii), 12(c)(i), and 12(c)(ii).

ii) IFRS 6 (Exploration and evaluation projects)

Under Previous Canadian GAAP, project generation and evaluation costs were permitted to be capitalized. In accordance with IFRS 6 (Exploration and evaluation projects), such costs, being costs incurred prior to the Company securing a legal right to explore a property, are not permitted to be capitalized.

The impact of these differences is detailed under the column “IFRS 6 adjustment” in the tables presented in each of notes 12(b)(i), 12(b)(ii), 12(c)(i), and 12(c)(ii).

**e) Impact on Statement of Cash Flows**

The IFRS transition adjustments detailed in note 12 did not have a material impact on the Company’ Statements of cash flows for either the three months ended Mach 31, 2010 or the year ended December 31, 2010.