MEDALLION RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

INDEPENDENT AUDITORS' REPORT

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LANCASTER & DAVID
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Medallion Resources Ltd.:

We have audited the accompanying consolidated financial statements of Medallion Resources Ltd., which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Medallion Resources Ltd. as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

/s/ Lancaster & David

CHARTERED ACCOUNTANTS

Vancouver, BC
June 28, 2012

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MEDALLION RESOURCES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2012	March 31, 2011	April 1, 2010
ASSETS			
Current			
Cash	$ 97,475	$ 326,532	$ 230,669
Short-term Investments (Note 4)	1,850,000	3,250,000	-
Other Receivables	70,531	36,651	22,954
Prepaid Expenses	88,034	73,365	30,791
Total Current Assets	2,106,040	3,686,548	284,414
Mineral Properties (Note 5)	269,839	745,160	192,689
Reclamation Bond (Note 6)	-	11,951	11,951
Equipment (Note 7)	1,251	2,275	2,363
Total Assets	$ 2,377,130	$ 4,445,934	$ 491,417
LIABILITIES			
Current			
Accounts Payable and Accrued Liabilities	$ 71,561	$ 37,576	$ 58,057
Due to Related Parties (Note 8)	30,477	40,376	43,850
Promissory Notes	-	-	51,290
Other Liabilities (Note 9)	-	5,246	-
Total Liabilities	102,038	83,198	153,197
SHAREHOLDERS' EQUITY			
Share Capital	$ 15,017,338	$ 14,861,221	$ 11,210,245
Warrants	1,163,576	1,292,736	362,979
Contributed Surplus	1,240,206	1,133,541	544,581
Deficit	(15,146,028)	(12,924,762)	(11,779,585)
Total Shareholders' Equity	2,275,092	4,362,736	338,220
Total Liabilities and Shareholders' Equity	$ 2,377,130	$ 4,445,934	$ 491,417

Corporate Information and Nature of Operations (Note 1)
Continuance of Operations (Note 2)
Subsequent Events (Note 16)

Approved on behalf of the Board:

/s/ Donald M. Lay
Donald M. Lay – Director

/s/ William H. Bird
William H. Bird – Director

The accompanying notes are an integral part of these consolidated financial statements

MEDALLION RESOURCES LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the Years Ended March 31

	2012	2011
Expenses		
Amortization	$ 1,024	$ 1,346
Consulting Fees (Note 8)	121,104	154,101
Investor Relations	284,607	179,569
Management Fees (Note 8)	273,537	113,750
Office and General	164,798	53,174
Professional Fees (Note 8)	105,393	110,697
Property Investigation	671,910	21,807
Rent	22,742	22,043
Stock-based Compensation	62,972	708,464
Transfer Agent and Filing Fees	43,217	45,856
	(1,751,304)	(1,410,807)
Other Items		
Interest Income and Other	33,669	14,038
Government Assistance	67,207	70,838
Write Off of Mineral Properties (Note 5)	(576,084)	-
Settlement of Flow-through Share Liability (Note 9)	5,246	54,754
Loss Before Taxes	(2,221,266)	(1,271,177)
Income Tax Recovery	-	126,000
Net Loss and Comprehensive Loss for the Year	$ (2,221,266)	$ (1,145,177)
Loss per Share – Basic and Diluted	$ (0.05)	$ (0.03)
Weighted Average Shares Outstanding	44,729,549	34,663,340

The accompanying notes are an integral part of these consolidated financial statements

MEDALLION RESOURCES LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Years Ended March 31, 2012 and 2011

	Number of Common Shares	Amount	Warrants	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance – April 1, 2010	23,338,583	$ 11,210,245	$ 362,979	$ 544,581	$ (11,779,585)	$ 338,220
Shares issued on:						
Private placements	14,119,999	2,566,252	848,748	-	-	3,415,000
Stock options exercised	475,000	164,047	-	(86,147)	-	77,900
Warrants exercised	5,986,226	1,646,132	(289,304)	-	-	1,356,828
Finders' options exercised	292,500	63,446	-	(34,196)	-	29,250
Finders' warrants exercised	-	(12,811)	12,811	-	-	-
Property acquisition	200,000	46,000	-	-	-	46,000
Finders units issued	187,127	40,665	15,473	-	-	56,138
Share issuance costs	-	(676,755)	342,868	-	-	(333,887)
Stock-based compensation	-	-	-	708,464	-	708,464
Tax benefit renounced to flow-through shares	-	(126,000)	-	-	-	(126,000)
Flow through share liability	-	(60,000)	-	-	-	(60,000)
Expiry of warrants	-	-	(839)	839	-	-
Net loss for the year	-	-	-	-	(1,145,177)	(1,145,177)
Balance – March 31, 2011	44,599,435	14,861,221	1,292,736	1,133,541	(12,924,762)	4,362,736
Shares issued on:						
Stock options exercised	160,000	92,602	-	(67,227)	-	25,375
Finders' warrants exercised	193,500	44,635	(15,610)	-	-	29,025
Finders' options exercised	22,500	4,880	-	(2,630)	-	2,250
Property acquisition	50,000	14,000	-	-	-	14,000
Stock-based compensation	-	-	-	62,972	-	62,972
Expiry of warrants	-	-	(113,550)	113,550	-	-
Net loss for the year	-	-	-	-	(2,221,266)	(2,221,266)
Balance – March 31, 2012	45,025,435	$ 15,017,338	$ 1,163,576	$ 1,240,206	$ (15,146,028)	$ 2,275,092

The accompanying notes are an integral part of these consolidated financial statements

MEDALLION RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended March 31

	2012	2011
Cash Flow Provided By (Used in)		
Operating Activities		
Net loss for the year	$ (2,221,266)	$ (1,145,177)
Adjusted for items not involving cash:		
Amortization	1,024	1,346
Stock-based Compensation	62,972	708,464
Income Tax Recovery	-	(126,000)
Write Off of Mineral Properties	576,084	-
Settlement of Flow-through Share Liability	(5,246)	(54,754)
Net change in non-cash working capital items:		
Other Receivables	(33,880)	(13,697)
Prepaid Expenses	(14,669)	(42,574)
Accounts Payable and Accrued Liabilities	33,985	(20,481)
Accrued Interest on Promissory Notes	-	(1,290)
Due to Related Parties	(9,899)	(3,474)
	(1,610,895)	(697,637)
Investing Activities		
Short-term Investments	1,400,000	(3,250,000)
Mineral Properties	(86,763)	(552,471)
Reclamation Bond	11,951	-
Equipment	-	(1,258)
	1,325,188	(3,803,729)
Financing Activities		
Issuance of Share Capital	56,650	4,981,116
Share Issue Costs	-	(333,887)
Repayment of Promissory Note	-	(50,000)
	56,650	4,597,229
(Decrease) Increase in Cash	(229,057)	95,863
Cash, Beginning of Year	326,532	230,669
Cash, End of Year	$ 97,475	$ 326,532
Supplementary Cash-flow Information:		
Interest Paid	$ -	$ 3,116
Income Taxes Paid	$ -	$ -
Non-Cash Investing and Financing Activities:		
Shares Issued for Property Acquisition	$ 14,000	$ 46,000

The accompanying notes are an integral part of these consolidated financial statements

NOTE 1 – CORPORATE INFORMATION AND NATURE OF OPERATIONS

Medallion Resources Ltd. (the "Company") was incorporated on December 8, 1989, under the Business Corporations Act (British Columbia).

The Company is in the business of acquisition and exploration of mineral properties. The Company's operations consist generally of mineral exploration and evaluation of new property acquisitions. This includes acquiring mineral properties, evaluating the merits of these properties using various techniques such as sampling, trenching and geophysical and geochemical methods as well as drilling. The Company has not yet determined whether its properties contain mineral resources that are economically recoverable. The recoverability of amounts recorded for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable mineral reserves, confirmation of the Company's interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and future profitable production from the properties or proceeds from the disposition thereof.

The Company's registered office is Suite 1160 – 595 Howe Street, Vancouver, British Columbia, V6C 2T5.

NOTE 2 – BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a going concern basis. As such they have been prepared in accordance with IFRS 1, *First Time Adoption of International Financial Reporting Standards*. This is the first time that the Company has prepared its consolidated financial statements in accordance with IFRS, having previously prepared its consolidated financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles.

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 15.

The consolidated financial statements were authorized for issue by the Board of Directors on June 28, 2012.

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant estimates and assumptions include those related to the recoverability of capitalized mineral property expenditures, assessment of rehabilitation provisions, valuation allowance on future income taxes and share-based compensation valuations. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Continuance of Operations

These consolidated financial statements are prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

The Company has not generated revenue from operations. The Company incurred a net loss of $2,221,266 for the year ended March 31, 2012 and, as of that date the Company's accumulated deficit was $15,146,028. The Company does not generate sufficient cash flow from operations to adequately fund its future activities and has relied principally upon the issuance of securities to fund its exploration and administrative expenditures. These conditions raise significant doubt regarding the Company's ability to continue as a going concern.

NOTE 2 – BASIS OF PRESENTATION (continued)

Continuance of Operations (continued)

The Company will require additional capital to fund its future property acquisitions and exploration programs as well as for administrative purposes. There is material uncertainty about whether the Company will be able to obtain additional capital. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these consolidated financial statements.

The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Medallion Resources (USA) Inc. All intercompany transactions and balances have been eliminated.

Foreign Currency Translation

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net loss.

Foreign denominated monetary assets and liabilities are translated to their Canadian-dollar equivalents using foreign exchange rates that prevailed at the balance sheet date. Non-monetary items that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with maturities of three months or less when acquired which are readily convertible into cash.

Equipment

Equipment is initially recorded at cost. The Company amortizes the cost of equipment over their estimated useful lives at the following annual rates using the declining balance method:

Computer equipment	45%

Residual values and useful economic lives are reviewed at least annually, and adjusted if appropriate, at each reporting date. Subsequent expenditure relating to an item of equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repair and maintenance expenses during the period in which they are incurred. Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized within other income in the statement of loss and comprehensive loss.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Properties

i) Pre-exploration costs

Pre-exploration costs are expensed in the year in which they are incurred.

ii) Exploration and Evaluation Expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as material used, geological and geophysical surveying costs, drilling costs and payments made to contractors during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur.

The Company may occasionally enter into farm-out or option arrangements, whereby the Company will transfer part of a mineral interest, as consideration for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee or optionee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of loss and comprehensive loss. The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs and value in use.

Once the technical feasibility and commercial viability of extracting the mineral resources has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Impairment of Non-Financial Assets

At each reporting period the carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets, are reviewed for indicators of impairment. If indicators exist, the recoverable amount of the asset is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For purposes of assessing impairment, exploration and evaluation assets and property and equipment are grouped into cash generating units ("CGU") defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in net loss. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in net loss. The recovery is limited to the original carrying amount less depreciation, if any, that would have been recorded had the asset not been impaired.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Government Assistance

Government assistance relates to the recovery of a portion of eligible expenditures on mineral properties from various government authorities and is recorded in the period in which it is received. Amounts received that relate to mineral properties that have previously been written off are recorded as other income in the statement of loss and comprehensive loss. Amounts received that relate to existing mineral properties are used to reduce the carrying amount of the related mineral property.

Rehabilitation Provisions

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mineral property. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company has only performed preliminary exploratory work on its mineral properties, and has not incurred significant rehabilitation provisions in the current year or prior periods.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities.

i) Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

At Fair Value Through Profit or Loss

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

i) Financial Assets (Continued)

Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale Investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized at fair value and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. Available-for-sale investments are classified as current except if they are expected to be realized beyond twelve months of the statement of financial position date, where they are classified as non-current.

ii) Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. These liabilities are initially recognized on the trade date at fair value when the Company becomes a party to the contractual provisions of the instrument and are subsequently carried at amortized cost using the effective interest rate method. The liabilities are derecognized when the Company's contractual obligations are discharged or cancelled or they expire.

Impairment of Financial Assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

Share Capital

Unit Offerings

The Company has adopted the relative fair value method with respect to the measurement of shares and warrants issued as equity units. The relative fair value method requires an allocation of the net proceeds received based on the pro rata relative fair values of the components. If and when the warrants are ultimately exercised, the applicable amounts are transferred from warrants to share capital. If the warrants expire unexercised, the applicable amount is transferred to contributed surplus.

Flow-through Shares

The Company may from time to time, issue flow-through common shares to finance a significant portion of its exploration programs in Canada. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the look-back rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss Per Share

Basic income (loss) per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted income (loss) per share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

Basic and diluted loss per share are the same in these consolidated financial statements as the inclusion of common share equivalents would be anti-dilutive.

Share-based Compensation

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no adjustment for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Income Taxes

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

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

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.

Leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset are not transferred to the Company (an operating lease), the total rentals payable under the lease are charged to the statement of comprehensive loss on a straight – line basis over the lease term.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards, Amendments and Interpretations Not Yet Effective

The following new standards and amendments to existing standards have been published and are mandatory for annual accounting periods beginning after January 1, 2012 or later, with early adoption permitted. None of these is expected to have a significant effect on the Company's consolidated financial statements.

i) IFRS 1, *First-time Adoption of International Financial Reporting Standards,* amendments regarding Government Loans;

ii) IFRS 7, *Financial Instruments: Disclosures*, amendments regarding Disclosures – Offsetting Financial Assets and Financial Liabilities;

iii) IFRS 9, *Financial Instruments* (New; to replace IAS 39 and IFRIC 9);

iv) IFRS 10, *Consolidated Financial Statements* (New; to replace consolidation requirements in IAS 27 (as amended in 2008) and SIC-12);

v) IFRS 11, *Joint Arrangements* (New; to replace IAS 31 and SIC-13);

vi) IFRS 12, *Disclosure of Interests in Other Entities* (New; to replace disclosure requirements in IAS 27 (as amended in 2008), IAS 28 (as revised in 2003) and IAS 31);

vii) IFRS 13, *Fair Value Measurement* (New; to replace fair value measurement guidance in other IFRSs);

viii) IAS 1, *Presentation of Financial Statements*, amendments regarding Presentation of Items of Other Comprehensive Income;

ix) IAS 19, *Employee Benefits* (Amended in 2011);

x) IAS 27, *Separate Financial Statements* (Amended in 2011);

xi) IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011);

xii) IAS 32, *Financial Instruments: Presentation*, amendments regarding Offsetting Financial Assets and Financial Liabilities;

xiii) IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (New).

NOTE 4 – SHORT-TERM INVESTMENTS

During the year ended March 31, 2011, the Company invested in a Guaranteed Investment Certificate ("GIC") in the amount of $3,250,000 with a maturity date of November 21, 2011 that provided interest at the prime rate less 1.80% if held to maturity. Interest income is recorded on the GIC and is included in Other Receivables. Upon maturity of the initial GIC, the Company invested in a second GIC in the amount of $2,400,000 with a maturity date of November 19, 2012 that provides interest at the prime rate less 1.80% if held to maturity. The Company has redeemed $550,000 of the second GIC leaving a balance at March 31, 2012 of $1,850,000.

NOTE 5 – MINERAL PROPERTIES

	Eden Lake Property	Red Wine Property	Total
Balance at April 1, 2010	$ 192,689	$ -	$ 192,689
Property-acquisition costs	55,046	3,060	58,106
Exploration expenditures:			
Field expenses	115,983	40,217	156,200
Geological	122,360	63,932	186,292
Geophysical	-	56,276	56,276
Other	84,813	10,784	95,597
Impairment	-	-	-
Balance at March 31, 2011	570,891	174,269	745,160
Property-acquisition costs	-	14,000	14,000
Exploration expenditures:			
Field expenses	-	700	700
Geological	-	52,756	52,756
Other	5,193	28,114	33,307
Impairment	(576,084)	-	(576,084)
Balance at March 31, 2012	$ -	$ 269,839	$ 269,839

Eden Lake Property, Manitoba

On December 1, 2009, the Company signed a Letter of Intent and on February 23, 2010 executed a definitive option agreement with Rare Element Resources Ltd. ("RES") whereby RES granted the Company an option to acquire a 65% joint venture interest in the Eden Lake rare-earth-element property in Manitoba, subject to a 3% net smelter return royalty in favour of a former property owner.

On September 15, 2010, RES and the Company agreed to amend the definitive option agreement so that a $50,000 payment, which was due to RES following approval of the option agreement by the TSX Venture Exchange on July 14, 2010, would instead be due on the first anniversary of the effective date. The September 15, 2010 amendment also added six Manitoba crown mineral claims, staked by the Company during June and July 2010, to the Eden Lake property.

On September 12, 2011, the Company terminated and returned the Eden Lake property to RES. As a result, $576,084 of exploration expenditures incurred on this property by the Company, of which $5,193 were incurred during the current year, were written off.

Red Wine Property, Labrador

On April 10, 2010, the Company signed a letter agreement with Polaris Capital Ltd. (the "vendor"), a private corporation, to acquire a 100% interest in four mineral licenses comprising the Red Wine rare earth mineral property located in the province of Labrador and Newfoundland. The letter agreement was amended on June 10, 2010 and March 16, 2011 to include three additional mineral licenses which were staked by the vendor and to make certain other minor changes to the letter agreement. As a result, the Company is acquiring a 100% interest in a total of seven mineral claims in Labrador, Canada. The property is subject to a 3% net smelter return royalty, half of which the Company can purchase for $1,500,000.

NOTE 5 – MINERAL PROPERTIES (continued)

Under the terms of the amended letter agreement, the Company will pay an aggregate of $475,000, issue an aggregate of 1,750,000 common shares and incur exploration expenditures totaling $550,000, as follows:

a) Making $475,000 of cash payments as follow:
   - $50,000 by the first anniversary of the amended agreement date;
   - an additional $100,000 by the second anniversary of the agreement date;
   - an additional $100,000 by the third anniversary of the agreement date;
   - an additional $100,000 by the fourth anniversary of the agreement date; and
   - an additional $125,000 by the fifth anniversary of the agreement date;

b) Issuing to the vendor 1,750,000 common shares as follow:
   - 50,000 shares upon the amended agreement date and the receipt of TSX-Venture Exchange approval (issued – Note 10h);
   - an additional 250,000 shares by the first anniversary of the agreement date;
   - an additional 250,000 shares by the second anniversary of the agreement date;
   - an additional 350,000 shares by the third anniversary of the agreement date;
   - an additional 350,000 shares by the fourth anniversary of the agreement date; and
   - an additional 500,000 shares by the fifth anniversary of the agreement date;

c) Incurring expenditures totaling $550,000 as follow:
   - $200,000 by the first anniversary of the agreement date;
   - an additional $50,000 by the second anniversary of the agreement date;
   - an additional $100,000 by the third anniversary of the agreement date;
   - an additional $100,000 by the fourth anniversary of the agreement date; and
   - an additional $100,000 by the fifth anniversary of the agreement date.

Subsequent to the year ended March 31, 2012, the Company and the vendor agreed to further amend the payment terms of the Red Wine letter agreement (Note 16d).

NOTE 6 – RECLAMATION BOND

As at March 31, 2008, the Company posted a reclamation bond of US$19,175 with the State of Nevada to cover the cost to reclaim the surface lands disturbed during the exploration programs at the previously held Ocelot Property. During the year ended March 31, 2009, the Division of Minerals, Nevada, re-evaluated the amount of required bond and returned US$7,197 back to the Company, with US$11,732 remaining under the bond to cover the reclamation work.

As of March 31, 2012, the Company had completed the necessary reclamation work and had received the full amount of the bond outstanding.

NOTE 7 – EQUIPMENT

Net book value of computer equipment is as follows:

		Computer Equipment
Cost		
Balance – April 1, 2010	$	8,808
Additions		1,258
Balance – March 31, 2011 and 2012	$	10,066
Accumulated Depreciation		
Balance – April 1, 2010	$	6,445
Depreciation for the year		1,346
Balance – March 31, 2011		7,791
Depreciation for the year		1,024
Balance – March 31, 2012	$	8,815
Carrying Amounts		
Balance – April 1, 2010	$	2,363
Balance – March 31, 2011	$	2,275
Balance – March 31, 2012	$	1,251

NOTE 8 – RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these statements are as follows:

a) During the year ended March 31, 2012, $146,000 (2011 - $159,894) was charged by a private company controlled by the Chief Executive Officer (the "CEO") of the Company for management fees and geological consulting fees. At March 31, 2012, $nil (March 31, 2011- $7,098, April 1, 2010 - $nil) was owed to the CEO and $nil (March 31, 2011 - $13,400, April 1, 2010 - $16,537) was owed to this company.

b) During the year ended March 31, 2012, the Company incurred $63,556 (2011 - $67,415) of legal fees and $nil (2011 - $48,549) of share issuance costs to a law firm in which a director of the Company is a principal. At March 31, 2012, $13,877 (March 31, 2011 - $4,985, April 1, 2010 - $19,753) was owed to this firm.

c) During the year ended March 31, 2012, $122,537 (2011 - $59,800) was charged by a private company controlled by the President of the Company for management fees. In addition, $13,713 (2011 - $nil) was charged by the company for marketing consulting fees. At March 31, 2012, $10,878 (March 31, 2011 - $11,200, April 1, 2010 - $7,560) was owed to this company. At March 31, 2012, $666 (March 31, 2011 - $nil, April 1, 2010 - $nil) was owed by the Company to the President on account of travel expenses.

d) During the year ended March 31, 2012, the Company paid $22,137 (2011 – $16,361) in rent in connection with an office sub-lease the Company entered into with a company owned by a director (see Note 11).

e) During the year ended March 31, 2012, the Company incurred $67,783 (2011 - $38,535) of consulting fees to the Chief Financial Officer (the "CFO") of the Company. At March 31, 2012, $5,056 (March 31, 2011 - $3,654, April 1, 2010 - $nil) was owed to the CFO.

f) During the year the Company paid a total of $5,000 (2011 - $nil) on account of directors' fees to directors of the Company.

g) During the year ended March 31, 2012, the Company granted 100,000 stock options to a director of the Company with an exercise price of $0.17 per share and an expiry date of September 21, 2016. The total fair value of stock options granted to the director during the year ended March 31, 2012, using the Black-Scholes option pricing model was $12,275.

h) During the year ended March 31, 2011, the Company granted a total of 1,850,000 stock options to directors and officers of the Company with an exercise prices ranging from $0.265 per share to $0.50 per share and expiry dates ranging from September 13, 2015 to January 27, 2016. The total fair value of stock options granted to directors and officers during the year ended March 31, 2011, using the Black-Scholes option pricing model was $513,344.

NOTE 9 – OTHER LIABILITIES

Other liabilities include the liability portion of the flow-through shares previously issued. The following is a continuity schedule of the liability portion of the flow-through share issuances.

	Issued During 2011	Total
Balance, April 1, 2010	$ –	$ –
Liability incurred on flow-through shares issued	60,000	60,000
Settlement of flow-through share liability on incurring expenditures	(54,754)	(54,754)
Balance, March 31, 2011	$ 5,246	$ 5,246
Liability incurred on flow-through shares issued	–	–
Settlement of flow-through share liability on incurring expenditures	(5,246)	(5,246)
Balance, March 31, 2012	$ –	$ –

On July 5, 2010, the Company completed a private placement, consisting of the issue and sale of 2,999,999 flow-through units at $0.15 per unit, for gross proceeds of $450,000. Each flow-through unit consisted of one flow-through common share and one-half of one common share purchase warrant. On July 5, 2010, the publicly quoted price of the Company's shares was $0.13 per share, resulting in the recognition of a flow-through share premium of $60,000, equal to the difference between the issuance price and the publicly quoted share price.

As at March 31, 2012, the Company had incurred cumulative exploration expenditures exceeding $450,000 (2011 - $410,656) in relation to its July 5, 2010, flow-through financing commitment.

NOTE 10 – SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without par value.

a) On July 5, 2010, the Company completed a non-brokered private placement consisting of 2,999,999 flow-through shares at $0.15 per share for gross proceeds of $450,000. The Company paid $30,994 of cash finders' fees and issued 261,003 finder's warrants each exercisable to acquire one common share at an exercise price of $0.15 per share until July 5, 2012. A fair value of $21,055 was assigned to these finders' warrants, and $73,789 of share issue costs were also incurred in connection with this private placement.

b) On July 12, 2010, the Company completed a non-brokered private placement consisting of 2,120,000 units at $0.125 per unit for gross proceeds of $265,000. Each unit consists of one common share and one transferable common share purchase warrant exercisable to acquire one common share at $0.25 per share until July 12, 2013. Cash proceeds from the private placement of $169,394 and $95,606 were allocated, respectively, to the common shares and warrants issued in the private placement based on their relative fair values at the closing date of the private placement. The Company paid $8,831 of cash finders' fees and issued 63,900 finder's warrants each exercisable to acquire a common share at $0.125 per share until July 12, 2012. A fair value of $4,901 was assigned to these finders' warrants, and $21,189 of share issue costs were also incurred in connection with this private placement.

c) On September 8, 2010, the Company issued 200,000 common shares valued at $46,000 as an option payment toward the acquisition of a 65% interest in the Eden Lake property (Note 5).

d) In the fall of 2010, the Company completed a non-brokered private placement for a total of 9,000,000 units at a price of $0.30 per unit for gross proceeds of $2,700,000, with a first tranche of 3,916,671 units closed on October 25, 2010 and a second tranche of 5,083,329 units closed on November 8, 2010. Each unit consists of one common share and one half of one common share purchase warrant exercisable to acquire one common share at $0.40 per share for a period of three years from the applicable closing date. Cash proceeds from the private placement of $1,946,858 and $753,142 were allocated, respectively, to the common shares and warrants issued in the private placement based on their relative fair values at the closing dates of the private placement. The Company paid a total of $126,600 in cash finders' fees as well as $29,375 in finance fees, and issued a total of 727,837 finder's warrants each exercisable to acquire a common share at $0.40 per share for a period of two years from closing. A fair value of $316,912 was assigned to these finders' warrants. In addition, the Company granted a total of 187,127 finders units at a deemed price of $0.30 per unit. Each finder's unit consists of one common share and one-half of one non-transferable common share purchase warrant with the same terms as the private placement warrants. A fair value of $40,665 and $15,473 was allocated, respectively, to the common shares and warrants issued on these finders' units. In addition to the cash finders' fees and finance fees paid, $56,155 of share issue costs were also incurred in connection with this private placement.

NOTE 10 – SHARE CAPITAL (continued)

e) During the year ended March 31, 2011, a total of 475,000 stock options were exercised at an average price of $0.16 per share for total proceeds of $77,900. A fair value of $86,147 was transferred to share capital on the exercise of these options.

f) During the year ended March 31, 2011, a total of 5,986,226 warrants were exercised at an average price of $0.23 per share for total proceeds of $1,356,828. A fair value of $289,304 was transferred to share capital on the exercise of these warrants.

g) During the year ended March 31, 2011, a total of 292,500 brokers' compensation options were exercised at a price of $0.10 per share for total proceeds of $29,250. A fair value of $34,196 was transferred to share capital and $12,811 was allocated to the 292,500 brokers' warrants issued.

h) On May 20, 2011, the Company issued 50,000 common shares valued at $14,000 as an option payment toward the acquisition of a 100% interest in the Red Wine property (Note 5).

i) During the year ended March 31, 2012, a total of 160,000 stock options were exercised at an average price of $0.16 per share for proceeds of $25,375. A fair value of $67,227 was transferred to share capital upon the exercise of these options.

j) During the year ended March 31, 2012, a total of 193,500 brokers' warrants were exercised at $0.15 per share for total proceeds of $29,025. A fair value of $15,610 was transferred to share capital.

k) During the year ended March 31, 2012, a total of 22,500 brokers' compensation options were exercised at $0.10 per share for total proceeds of $2,250. A fair value of $2,630 was transferred to share capital.

Warrants

A summary of the changes in the Company's warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price
Balance – April 1, 2010	7,104,717	$ 0.24
Exercised	(5,986,226)	0.23
Issued	8,058,803	0.34
Expired	(12,500)	0.25
Balance – March 31, 2011	9,164,794	$ 0.34
Exercised	(193,500)	0.15
Expired	(1,979,117)	0.26
Balance – March 31, 2012	6,992,177	$ 0.36

As of March 31, 2012, the following warrants were outstanding:

Expiry Date	Number of Warrants Outstanding	Exercise Price
July 5, 2012	45,127	$ 0.15
July 12, 2012	34,650	$ 0.125
October 25, 2012	391,667	$ 0.40
November 12, 2012	336,170	$ 0.40
July 12, 2013	1,591,000	$ 0.25
October 25, 2013	1,958,335	$ 0.40
November 12, 2013	2,635,228	$ 0.40
	6,992,177	$ 0.36

NOTE 10 – SHARE CAPITAL (continued)

Stock Options

The Board of Directors is authorized, pursuant to the Company's Stock Option Plan, to grant options to directors, officers, consultants or employees to acquire up to 10% of the issued and outstanding common shares at the time of grant. The exercise price for a stock option must not be less than the market price of the Company's common shares at the time the option is granted, less applicable discounts permitted by the TSX Venture Exchange. Stock options granted under this plan are exercisable over a period not exceeding five years.

a) During the year ended March 31, 2011, a total of 2,720,000 stock options were granted to officers, directors, consultants, and advisors of the Company. 1,245,000 stock options with an exercise price of $0.265 were granted with an expiry date of September 13, 2015. All of these stock options vested and were exercisable immediately. 1,390,000 stock options with an exercise price of $0.50 were granted with an expiry date of January 27, 2016. Of these, 1,352,500 stock options vested immediately with 12,500 stock options vesting on each of April 27, 2011, July 27, 2011 and January 27, 2012. 85,000 stock options with an exercise price of $0.40 were also granted of which 42,500 vested on July 27, 2011 and 42,500 vested on January 27, 2012.

b) On June 14, 2011, the Company granted 75,000 stock options to a consultant of the Company with an exercise price of $0.23 per share and an expiry date of June 14, 2016. These stock options vested and were exercisable immediately.

c) On September 21, 2011, the Company granted 100,000 stock options to a director of the Company with an exercise price of $0.17 per share and an expiry date of September 21, 2016. These stock options vested and were exercisable immediately.

d) On October 24, 2011, the Company granted 200,000 stock options to a company that advises the Company with an exercise price of $0.155 per share and expiry date of October 24, 2016. Of these, 50,000 stock options vested immediately with 50,000 stock options vesting on each of January 24, 2012, April 24, 2012 and October 24, 2012.

e) On March 1, 2012, the Company granted 132,193 stock options to a consultant of the Company with an exercise price of $0.24 per share and expiry date of March 1, 2014. The stock options will vest when the consultant meets certain financing-related performance criteria. As at March 31, 2012 these criteria had not been met.

Stock-based compensation expense is determined using the Black-Scholes option pricing model. During the year ended March 31, 2012, the Company recognized stock-based compensation expense of $62,972 (2011 - $708,464) in contributed surplus. The weighted average fair value of the options granted during the year ended March 31, 2012, was $0.12 (2011 - $0.26). The Company used the following weighted average assumptions:

	2012	2011
Risk-free interest rate	1.28%	1.71%
Expected share price volatility	121%	138%
Expected option life in years	2.40	2.52
Dividend yield	Nil%	Nil%

A summary of the changes in the Company's stock options is presented below:

	Number of Stock Options	Weighted Average Exercise Price
Balance – April 1, 2010	1,825,000	$ 0.15
Granted	2,720,000	0.39
Exercised	(475,000)	0.16
Balance – March 31, 2011	4,070,000	0.31
Granted	507,193	0.19
Exercised	(160,000)	0.16
Cancelled	(425,000)	0.36
Balance – March 31, 2012 – Outstanding	3,992,193	$ 0.30
Balance – March 31, 2012 – Exercisable	3,760,000	$ 0.30

NOTE 10 – SHARE CAPITAL (continued)

Stock Options (continued)

As of March 31, 2012, the following options were outstanding:

	Number of Options Outstanding	Exercise Price
August 15, 2012	250,000	$ 0.15
January 7, 2014	290,000	$ 0.15
January 20, 2014	130,000	$ 0.15
March 1, 2014	132,193	$ 0.24
November 6, 2014	440,000	$ 0.15
November 30, 2014	35,000	$ 0.17
February 10, 2015	35,000	$ 0.175
February 23, 2015	70,000	$ 0.20
September 13, 2015	960,000	$ 0.265
January 27, 2016	1,275,000	$ 0.50
June 14, 2016	75,000	$ 0.23
September 21, 2016	100,000	$ 0.17
October 24, 2016	200,000	$ 0.155
	3,992,193	$ 0.30

Finder's Options

	Number of Finder's Options	Weighted Average Exercise Price
Balance – April 1, 2010	315,000	$ 0.10
Exercised	(292,500)	0.10
Balance – March 31, 2011	22,500	$ 0.10
Exercised	(22,500)	0.10
Balance – March 31, 2012	-	$ -

NOTE 11 – COMMITMENTS

The Company entered into a sub-lease with a company owned by a director for office premises which commenced June 1, 2010, and expired on June 30, 2011. The monthly rent of $1,818 commenced July 1, 2010 and is due at the beginning of each month. The Company exercised the option to extend the lease agreement for an additional year to June 30, 2012 and again for an additional year to June 30, 2013 under the same terms and conditions except that as of April 1, 2012 the monthly rent increased to $2,036. The following is a summary of the future lease commitments:

Fiscal 2013	$ 24,434
Fiscal 2014	$ 6,108

NOTE 12 – FINANCIAL INSTRUMENTS

The following table sets forth the levels in the fair value hierarchy in which the Company's financial assets and liabilities are measured and recognized in the statement of financial position. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance, March 31, 2012
Cash	$ 97,475	$ -	$ -	$ 97,475
Short-term investments	$ 1,850,000	$ -	$ -	$ 1,850,000

The fair value of the Company's other receivables, accounts payables and accrued liabilities, and due to related parties approximate their carrying values. The Company's financial instruments are exposed to certain financial risks including credit risk, liquidity risk, and commodity-price risk.

a) Credit risk

The Company's cash and short-term investments are held in a major Canadian financial institution. The Company's other receivables consist primarily of goods and services tax due from the federal government of Canada.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

c) Commodity price risk

The ability of the Company to develop its mineral properties and the future profitability of the Company are directly related to the market price of several commodities. The Company has not hedged any potential future commodity sales. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

d) Sensitivity analysis

The Company has, for accounting purposes, designated its cash and short-term investments as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost. As at March 31, 2012, the carrying and fair value amounts of the Company's financial instruments are the same.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected significantly by interest rate risk, foreign currency risk and price risk. The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk. Commodity price risk could, however, affect the Company. In particular, the Company's future profitability and viability of development depends upon world markets for natural resources. As of March 31, 2012, the Company was not a producing entity. As a result, commodity price risk could affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken.

NOTE 13 - MANAGEMENT OF CAPITAL RISK

The Company manages its cash, common shares, stock options, finder's options and warrants as capital (Note 10). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may look to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. In order to maximize ongoing exploration efforts, the Company does not currently pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments issued by a major Canadian chartered bank.

NOTE 14 – INCOME TAXES

The Company has non-capital losses for income tax purposes of approximately $3,207,000 (2011 - $2,119,000), which may be used to reduce future taxable income in Canada, expiring between 2014 and 2032. The Company has a net capital loss of $130,000 (2011 - $130,000), which can be carried forward to set off against future taxable capital gains. The Company has unclaimed exploration and development expenditures of approximately $5,525,000 (2011 - $4,819,000) which can be deducted for income tax purposes in Canada in future years at the Company's discretion.

Future income tax assets and liabilities are recognized for temporary differences between the carrying amounts of items on the statement of financial position and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

The reconciliation of income tax benefit computed at statutory rates to the reported income tax benefit is as follows:

		2012		2011
Loss before income taxes	$	(2,221,266)	$	(1,271,177)
		26.13%		28.00%
Income tax benefit computed at Canadian statutory rates	$	580,000	$	356,000
Mineral property costs expensed		(176,000)		(6,000)
Write off of mineral properties		(151,000)		-
Stock-based compensation		(16,000)		(198,000)
Other		47,000		67,000
Renunciation of expenditures related to flow-through shares		-		126,000
Non-capital loss deductions expired		-		(13,000)
Change in tax rate		(3,000)		1,000
Change in valuation allowance		(281,000)		(207,000)
Future income tax recovery	$	-	$	126,000

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

		March 31, 2012		March 31, 2011		April 1, 2010
Future income tax assets (liabilities):						
Non-capital loss carry-forwards	$	802,000	$	584,000	$	401,000
Capital loss carry-forwards		16,000		16,000		16,000
Equipment		3,000		2,000		2,000
Mineral properties		1,314,000		1,021,000		1,177,000
Undeducted financing costs		57,000		85,000		44,000
		2,192,000		1,708,000		1,640,000
Valuation allowance for future income tax assets		(2,192,000)		(1,708,000)		(1,640,000)
	$		$	-	$	-

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. A valuation allowance has been provided against all net future tax assets, as realization of such net assets is uncertain.

NOTE 15 – FIRST TIME ADOPTION OF INTERNATIONAL REPORTING STANDARDS

The Company's consolidated financial statements for the year ended March 31, 2012 are the first annual financial statements prepared in accordance with IFRS. IFRS 1, *"First Time Adoption of International Financial Reporting Standards",* requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was April 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company is March 31, 2012. Therefore, the financial statements for the year ended March 31, 2012, the comparative information presented in these financial statements for the year ended March 31, 2011 and the opening IFRS statement of financial position at April 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP"). In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP.

The IFRS applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are described below.

Optional Exemptions

a) Business combinations

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

b) Share-based payment transactions

The Company has elected not to retrospectively apply IFRS 2, *"Share-based payments"* to equity instruments that were granted and had vested before the Transition Date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as of the Transition Date to IFRS.

c) Leases

IFRS 1 allows an exemption for first-time adopters to determine whether an arrangement existing at the IFRS transaction date contains a lease on the basis of facts and circumstances existing at the Transition Date, instead of the inception of the agreements. The Company has elected to use this exemption.

d) Cumulative translation differences

IFRS 1 allows an exemption for first-time adopters to deem cumulative translation differences to be $nil for foreign operations at the date of transition to IFRS. The Company has elected to use this exemption.

Mandatory Exceptions

a) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made under pre-changeover Canadian GAAP, unless there is objective evidence that those estimates were in error. IFRS employs a conceptual framework that is similar to pre-changeover Canadian GAAP. The Company's IFRS estimates as of April 1, 2010 are consistent with its pre-changeover Canadian GAAP estimates for the same date.

NOTE 15 – FIRST TIME ADOPTION OF INTERNATIONAL REPORTING STANDARDS (continued)

Reconciliation of pre-changeover Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive loss and cash flows to prior periods. The change made to the statements of financial position and statements of loss and comprehensive loss as shown below have not resulted in material adjustments to the net cash flows, and therefore, reconciliation of the statement of cash flows has not been disclosed.

a) Reconciliation of statement of financial position as of April 1, 2010 (Transition Date)

The reconciliation between the pre-changeover Canadian GAAP and the IFRS consolidated statement of financial position as at April 1, 2010 (transition date to IFRS) is provided below:

	Canadian GAAP		Effect of Transition to IFRS	IFRS
Current				
Cash	$ 230,669		$ -	$ 230,669
Other Receivables	22,954		-	22,954
Prepaid Expenses	30,791		-	30,791
Total Current Assets	284,414		-	284,414
Mineral Properties	192,689		-	192,689
Reclamation Bond	11,951		-	11,951
Equipment	2,363		-	2,363
Total Assets	$ 491,417		$ -	$ 491,417
LIABILITIES				
Current				
Accounts Payable and Accrued Liabilities	$ 58,057		$ -	$ 58,057
Due to Related Parties	43,850		-	43,850
Promissory Notes	51,290		-	51,290
Total Liabilities	153,197		-	153,197
SHAREHOLDERS' EQUITY				
Share Capital	$ 11,372,638	*(i)*	$ (162,393)	$ 11,210,245
Warrants	362,979		-	362,979
Contributed Surplus	544,581		-	544,581
Deficit	(11,941,978)	*(i)*	162,393	(11,779,585)
Total Shareholders' Equity	338,220		-	338,220
Total Liabilities and Shareholders' Equity	$ 491,417		$ -	$ 491,417

NOTE 15 – FIRST TIME ADOPTION OF INTERNATIONAL REPORTING STANDARDS (continued)

b) Reconciliation of statement of financial position as of March 31, 2011

The reconciliation between the pre-changeover Canadian GAAP and the IFRS consolidated statement of financial position as at March 31, 2011 is provided below:

	Canadian GAAP		Effect of Transition to IFRS	IFRS
Current				
Cash	$ 326,532		$ -	$ 326,532
Short-term Investments	3,250,000		-	3,250,000
Other Receivables	36,651		-	36,651
Prepaid Expenses	73,365		-	73,365
Total Current Assets	3,686,548		-	3,686,548
Mineral Properties	745,160		-	745,160
Reclamation Bond	11,951		-	11,951
Equipment	2,275		-	2,275
Total Assets	$ 4,445,934		$ -	$ 4,445,934
LIABILITIES				
Current				
Accounts Payable and Accrued Liabilities	$ 37,576		$ -	$ 37,576
Due to Related Parties	40,376		-	40,376
Other Liabilities	-	*(i)*	5,246	5,246
Total Liabilities	77,952		5,246	83,198
SHAREHOLDERS' EQUITY				
Share Capital	$ 15,083,614	*(i)*	$ (222,393)	$ 14,861,221
Warrants	1,292,736		-	1,292,736
Contributed Surplus	1,133,541		-	1,133,541
Deficit	(13,141,909)	*(i)*	217,147	(12,924,762)
Total Shareholders' Equity	4,367,982		(5,246)	4,362,736
Total Liabilities and Shareholders' Equity	$ 4,445,934		$ -	$ 4,445,934

NOTE 15 – FIRST TIME ADOPTION OF INTERNATIONAL REPORTING STANDARDS (continued)

c) Reconciliation of statement of loss and comprehensive loss for the year ended March 31, 2011

The reconciliation between the pre-changeover Canadian GAAP and the IFRS consolidated statement of loss and comprehensive loss for the year ended March 31, 2011 is provided below:

	Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses			
Amortization	$ 1,346	-	$ 1,346
Consulting Fees	154,101	-	154,101
Investor Relations	179,569	-	179,569
Management Fees	113,750	-	113,750
Office and General	53,174	-	53,174
Professional Fees	110,697	-	110,697
Property Investigation	21,807	-	21,807
Rent	22,043	-	22,043
Share-based Compensation	708,464	-	708,464
Transfer Agent and Filing Fees	45,856	-	45,856
	(1,410,807)	-	(1,410,807)
Other Items			
Interest Income and Other	14,038	-	14,038
Government Assistance	70,838	-	70,838
Settlement of Flow-through Share Liability	-	*(i)* 54,754	54,754
Loss Before Taxes	(1,325,931)	54,754	(1,271,177)
Income Tax Recovery	126,000	-	126,000
Net Loss and Comprehensive Loss for the Year	(1,199,931)	54,754	(1,145,177)

NOTE 15 – FIRST TIME ADOPTION OF INTERNATIONAL REPORTING STANDARDS (continued)

d) Notes to the reconciliations of pre-changeover Canadian GAAP to IFRS (continued)

i) Flow-through shares

Under pre-changeover Canadian GAAP, the entire proceeds from the issuance of flow-through shares were recognized in equity, less the tax effects of renunciation. Under IFRS, on issuance of flow-through shares, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

To the extent that the Company has deferred tax assets in the form of tax loss carry-forwards and other unused tax credits as at the end of the reporting period, the Company may use them to reduce its deferred tax liability relating to tax benefits being transferred through flow-through shares.

As a result, for issuances of flow-through shares for which expenditures have been incurred, share capital was decreased by $162,393 at the date of transition (March 31, 2011 - $222,393) and deficit was decreased by $162,393 (March 31, 2011 - $222,393). The impact on the statement of loss and comprehensive loss for the year ended March 31, 2011, was a decrease in the loss of $54,754.

Where flow-through shares were issued but expenditures not incurred by the end of the reporting period, a liability is shown in ‘other liabilities’. This resulted in a liability of $nil at the date of transition (March 31, 2011 - $5,246).

NOTE 16 – SUBSEQUENT EVENTS

Subsequent to March 31, 2012, the following took place:

a) On April 3, 2012, the Company granted 267,807 stock options to a consultant of the Company with an exercise price of $0.24 and expiry date of March 1, 2014. The stock options will vest when the consultant meets certain financing related performance criteria.

b) On April 3, 2012, the Company granted 150,000 stock options to a consultant of the Company with an exercise price of $0.24 per share and expiry date of April 3, 2014. The stock options vested immediately.

c) On May 7, 2012, 5,400 brokers’ warrants were exercised at $0.125 per share for total proceeds of $675.

d) On May 8, 2012, the Company entered into a further amended letter agreement with Polaris Capital Ltd (the “vendor”) (Note 5). Under the terms of the amended letter agreement, the Company will pay an aggregate of $475,000, issue an aggregate of 1,600,000 common shares and incur exploration expenditures totaling $350,000, as follows:

Making $475,000 of cash payments as follow:

- $50,000 by the second anniversary of the original agreement date of March 16, 2011;
- an additional $100,000 by the third anniversary of the original agreement date;
- an additional $100,000 by the fourth anniversary of the original agreement date;
- an additional $100,000 by the fifth anniversary of the original agreement date; and
- an additional $125,000 by the sixth anniversary of the original agreement date;

Issuing to the vendor 1,600,000 common shares as follow:

- 50,000 shares upon execution of the amended letter agreement;
- an additional 100,000 shares by the second anniversary of the original agreement date;
- an additional 250,000 shares by the third anniversary of the original agreement date;
- an additional 350,000 shares by the fourth anniversary of the original agreement date;
- an additional 350,000 shares by the fifth anniversary of the original agreement date; and
- an additional 500,000 shares by the sixth anniversary of the original agreement date;

Incurring expenditures totaling $350,000 as follow:

- an additional $50,000 by the second anniversary of the original agreement date;
- an additional $100,000 by the third anniversary of the original agreement date;
- an additional $100,000 by the fourth anniversary of the original agreement date; and
- an additional $100,000 by the fifth anniversary of the original agreement date.

e) On May 9, 2012, the Company issued 50,000 shares pursuant to the amended letter agreement entered into on May 8, 2012.