LITHIC RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE

YEAR ENDED DECEMBER 31, 2011

(Expressed in Canadian Dollars)

April 24, 2012

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Lithic Resources Ltd.

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

Management's Responsibility for the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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, these consolidated financial statements present fairly, in all material respects, the financial position of Lithic Resources Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

April 24, 2012

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian funds)

	December 31, 2011	December 31, 2010 (*Note 16*)	January 1, 2010 (*Note 16*)
ASSETS			
Current			
Cash *(Note 4)*	**$ 435,539**	$ 754,903	$ 1,242,440
Receivables (*Note 5*)	**9,824**	14,373	1,645
Prepaids	**5,153**	7,497	8,845
Marketable securities (*Note 6*)	**6,750**	11,170	5,473
	457,266	787,943	1,258,403
Deferred finance costs	**-**	11,155	14,271
Equipment	**-**	-	10,937
Reclamation deposit (*Note 7*)	**77,035**	76,290	69,681
Exploration and evaluation assets (*Note 7*)	**5,086,092**	4,912,757	4,715,954
	$ 5,620,393	$ 5,788,145	$ 6,069,246
LIABILITIES			
Current			
Accounts payable and accrued liabilities (*Note 8*)	**$ 68,077**	$ 72,012	$ 129,667
	68,077	72,012	129,667
SHAREHOLDERS' EQUITY			
Capital stock *(Note 9)*	**11,522,296**	11,244,081	10,554,120
Share subscriptions received	**-**	-	585,000
Reserves - share-based	**1,308,810**	1,265,855	966,945
Reserves - accumulated other comprehensive income	**4,460**	8,880	3,183
Deficit	**(7,283,250)**	(6,802,683)	(6,169,669)
	5,552,316	5,716,133	5,939,579
	$ 5,620,393	$ 5,788,145	$ 6,069,246

Nature of Operations and Going Concern (Note 1)
Subsequent Event (Note 17)

Approved on behalf of the Board:

"C.F. Staargaard" *"Steve Vanry"*

C.F. Staargaard, Director Steve Vanry, Director

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian funds)

	Shares Issued #	Capital Stock Amount	Share Subscriptions Received	Reserves – Stock Based	Reserves – Accumulated Other Comprehensive Income	Deficit	Total
Balance, January 1, 2010	**36,405,519**	**$10,554,120**	**$ 585,000**	**$ 966,945**	**$ 3,183**	**$(6,169,669)**	**$5,939,579**
Private placement	5,000,000	750,000	(585,000)	--	--	--	165,000
Issuance of stock on option exercise	50,000	5,000	--	--	--	--	5,000
Reclassification on exercise of stock options	--	3,570	--	(3,570)	--	--	--
Unrealized loss on marketable securities	--	--	--	--	5,697	--	5,697
Share issue costs	--	(68,609)	--	18,835	--	--	(49,774)
Share-based compensation	--	--	--	283,645	--	--	283,645
Loss for the year	--	--	--	--	--	(633,014)	(633,014)
Balance December 31, 2010	**41,455,519**	**11,244,081**	**--**	**1,265,855**	**8,880**	**(6,802,683)**	**5,716,133**
Unrealized loss on marketable securities	--	--	--	--	(4,420)	--	(4,420)
Private placement	3,250,000	260,000	--	--	--	--	260,000
Units issued as finders' fee	210,000	16,800					16,800
Share issue costs	--	(43,240)	--	--	--	--	(43,240)
Issuance of stock on warrant exercise	62,500	9,375	--	--	--	--	9,375
Issuance of stock on option exercise	200,000	20,000	--	--	--	--	20,000
Share-based compensation	--	--	--	58,235	--	--	58,235
Reclassification on exercise of stock options	--	15,280	--	(15,280)	--	--	--
Loss for the year	--	--	--	--	--	(480,567)	(480,567)
Balance, December 31, 2011	**45,178,019**	**$11,522,296**	**$ --**	**$ 1,308,810**	**$ 4,460**	**$(7,283,250)**	**$5,552,316**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in Canadian funds)

	Year ended December 31, 2011	December 31, 2010 (Note 16)
EXPENSES		
Communication and investor relations	**$ 67,612**	$ 30,963
Filing and regulatory	**21,486**	21,687
Foreign exchange loss (gain)	**(715)**	5,116
Management fees	**168,000**	168,000
Office and miscellaneous	**39,330**	22,233
Professional fees	**104,290**	109,599
Rent	**20,600**	18,600
Share-based compensation *(Note 9)*	**58,235**	256,386
Travel	**7,810**	4,812
Loss before other item	**(486,648)**	(637,396)
OTHER ITEM		
Interest income	**6,081**	4,382
Loss for the year	**(480,567)**	(633,014)
Other comprehensive loss		
Unrealized gain (loss) on marketable securities	**(4,420)**	5,697
Comprehensive loss for the year	**$ (484,987)**	$ (627,317)
Basic and diluted loss per common share	**$ (0.01)**	$ (0.02)
Weighted average shares outstanding	**44,875,498**	41,359,081

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian funds)

	Year ended	
	December 31, 2011	December 31, 2010 (Note 16)
OPERATING ACTIVITIES		
Loss for the year	**$ (480,567)**	$ (633,014)
Items not involving cash:		
Share-based compensation	**58,235**	256,386
Unrealized foreign exchange loss (gain) on reclamation deposit	**(745)**	3,905
Change in operating assets and liabilities:		
(Increase) decrease in receivables	**4,549**	(12,728)
(Increase) decrease in prepaids	**(87)**	1,348
Decrease in accounts payable and accrued liabilities	**(5,601)**	(18,864)
Cash used in operating activities	**(424,216)**	(402,967)
FINANCING ACTIVITIES		
Share issue costs	**(26,440)**	(35,503)
Proceeds from share issuance	**289,375**	170,000
Cash provided by financing activities	**262,935**	134,497
INVESTING ACTIVITIES		
Exploration and evaluation assets	**(158,083)**	(208,553)
Reclamation deposit	**-**	(10,514)
Cash used in investing activities	**(158,083)**	(219,067)
Decrease in cash during the year	**(319,364)**	(487,537)
Cash, beginning of year	**754,903**	1,242,440
Cash, end of year	**$ 435,539**	$ 754,903

Supplemental cash flow information		
Interest paid	$ -	$ -
Income taxes paid	-	-

Supplemental disclosure with respect to cash flows (Note 11)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Lithic Resources Ltd. (the "Company") was incorporated on October 24, 1997 under the laws of British Columbia. The Company's head office is at 912 - 510 West Hastings Street, Vancouver, B.C., Canada, V6B 1L8. The Company is listed on the TSX Venture Exchange under the trading symbol LTH.V

The consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency of the parent company and its subsidiary, unless otherwise indicated.

The Company's principal business activities include the acquisition and exploration of mineral exploration and evaluation assets. Its current focus is on a mineral property domiciled in the United States. The Company has not yet determined whether any of these exploration and evaluation assets contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

These Consolidated Financial Statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing and to develop profitable operations. The 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.

The continuance of the Company's operations is dependent on obtaining sufficient additional financing in order to realize the recoverability of the Company's investments in exploration and evaluation assets which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals. Management closely monitors metal commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company if favourable or adverse market conditions occur. Management estimates it will have sufficient working capital to continue operations for the next 12 months. As of December 31, 2011 the Company had working capital of $389,189 (December 31, 2010 - $715,931) and accumulated deficit of $7,283,250 (December 31, 2010 - $6,802,683).

2. STATEMENT OF COMPLIANCE

These consolidated financial statements represent the first annual consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), which also include International Accounting Standards ("IAS") and Interpretations ('IFRIC" and "SIC"). The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was January 1, 2010. In accordance with IFRS, the Company has:

- Provided comparative financial information;
- Applied the same accounting policies throughout all periods presented;
- Retrospectively applied all effective IFRS as of December 31, 2010, as required and
- Applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

2. STATEMENT OF COMPLIANCE (continued)

The Company's consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP has differences in some areas from IFRS. In preparing these financial statements, management has amended certain accounting, measurement and consolidation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. See Note 16 for a description of the effect of the transition from Canadian GAAP to IFRS.

The Consolidated Financial Statements were authorized by the audit committee and board of directors of the Company on April 24, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Consolidated Financial Statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 2. In addition, these Consolidated Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these Consolidated Financial Statements are in accordance with IFRS.

Basis of consolidation

The Consolidated Financial Statements of the Company include the accounts of the Company and its wholly-owned subsidiary N.P.R. (US) Inc., a Nevada corporation. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company transactions and balances have been eliminated upon consolidation.

Foreign currency transactions

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which the Company operates.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Non-monetary items are translated into Canadian dollars at the exchange rate in effect on the respective transaction dates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recorded over the estimated useful lives of the assets of three years on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

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

Exploration and evaluation assets

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. All costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Provisions

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss.

The Company had no rehabilitation obligations as at December 31, 2011; December 31, 2010; and January 1, 2010.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

The Company had no other provisions as at December 31, 2011; December 31, 2010; and January 1, 2010.

Capital stock

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Costs related to issuances not completed at the reporting date will be recorded as deferred financing costs if the completion of the transaction is considered likely; otherwise they are expensed as incurred.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. Warrants that are part of units are assigned a value based on the residual value, if any, and included in reserves. Warrants that are issued as payment for agency fee or other transactions costs are accounted for as share-based payments.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Significant accounting estimates and judgments

The preparation of these Consolidated Financial Statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Actual results may differ from these estimates. These Consolidated Financial Statements do not include all of the information required for full annual financial statements.

Significant areas requiring the use of estimates relate to the valuation of exploration and evaluation assets, the valuation of provisions, share-based compensation, the fair value of financial instruments, and deferred income taxes.

Share-based compensation

The share option plan allows Company employees (including directors and senior executives) and consultants to acquire shares of the Company. The fair value of options granted is recognized as share-based compensation expense with a corresponding increase in reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

options is credited to capital stock and the fair value of the options is reclassified from reserves to capital stock

The Company accounts for the granting of stock options and direct awards of stock to employees, using the fair value method whereby all awards will be recorded at fair value on the date of grant. Share-based compensation awards are calculated using the Black-Scholes option pricing model. Compensation expense is recognized immediately for past services and pro rata for future services over the options vesting period with a corresponding increase in reserves. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based compensation. Otherwise, share-based compensation is measured at the fair value of goods or services received.

Income taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial position reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the balance sheet liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the financial position reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Comprehensive Income

Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from profit or loss such as:

- Foreign currency translation adjustments; and
- Unrealized gains or losses on available-for-sale investments.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash and reclamation deposit are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. The Company's marketable securities are classified as available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. The Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

Impairment

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative figures

Comparative figures have been reclassified, where applicable, to conform to the current year's presentation.

New standards, amendments and interpretations not yet effective:

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2011 and have not been applied in preparing these Consolidated Financial Statements. None of these are expected to have a material effect on the financial statements of the Company.

Accounting Standards Effective January 1, 2012

Financial instruments disclosure

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

Income taxes

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

Accounting Standards Anticipated To Be Effective January 1, 2013

Joint ventures

The IASB issued Exposure Draft 9 – Joint Arrangements ("ED-9") in September 2007. ED-9 proposed to eliminate the Company's choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method. During the second quarter of 2009, the IASB commenced re-deliberations of ED-9 and now proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The IASB planned on publishing the final standard during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company is currently evaluating the impact that ED-9 and the final standard are expected to have on its consolidated financial statements.

Consolidation

On September 29, 2010, the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace current standards on consolidation, IAS 27 - Consolidated and Separate Financial Statements and SIC-12, with a single standard on consolidation. The IASB plans on publishing the final standard on consolidation during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at FVTPL, financial guarantees and certain other exceptions. The IASB has issued exposure drafts addressing impairment of financial instruments, hedge accounting and the offsetting of financial assets and liabilities, with comments due in March and April of 2011. The complete IFRS 9 has not been issued by the end of 2011. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

4. CASH

Cash is comprised of cash in Canadian and US financial institutions:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash in US financial institutions	4,782	3,900	2,857
Cash in Canadian financial institutions	430,757	751,003	1,239,583
Total cash	435,539	754,903	1,242,440

5. RECEIVABLES

Trade and other receivables were comprised of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Harmonized sales tax receivable	$ 9,824	$ 14,373	$ 1,645

6. MARKETABLE SECURITIES

Marketable securities are classified as available for sale financial instruments, which are adjusted to market value. As at December 31, 2011 the fair market value of the securities held was $6,750 (December 31, 2010 - $11,170; January 1, 2010 - $5,473).

7. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets involves inherent risks due to difficulties of determining the validity of certain mineral claims and leases as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets. The Company has investigated title to its exploration and evaluation asset and, to the best of its knowledge, title is in good standing.

7. EXPLORATION AND EVALUATION ASSETS (continued)

Crypto Zinc Property

The Company holds a 100% interest in various mining claims and a mineral lease referred to as the Crypto Zinc Property located in Utah, USA.

The following table represents expenditures incurred on the exploration and evaluation assets during the years ended December 31, 2011 and 2010:

	Crypto	Total 2011
Acquisition costs	$ 381,905	$ 381,905
Deferred exploration costs		
Balance, beginning of year	4,530,852	4,530,852
Additions during the year:		
Field costs	27,019	27,019
Geological wages, fees and costs	56,505	56,505
Property holding costs, taxes and fees	31,105	31,105
Water supply costs	58,706	58,706
	173,335	173,335
Balance, end of year	4,704,187	4,704,187
Total	$ 5,086,092	$ 5,086,092

	Crypto	Total 2010
Acquisition costs	$ 381,905	$ 381,905
Deferred exploration costs		
Balance, January 1, 2010	4,334,049	4,334,049
Additions during the year:		
Analysis	203	203
Amortization of equipment	10,937	10,937
Engineering	62,402	62,402
Field costs	3,559	3,559
Geological wages, fees and costs	70,087	70,087
Metallurgical studies	18,038	18,038
Property holding costs, taxes and fees	31,577	31,577
	196,803	196,803
Balance, end of year	4,530,852	4,530,852
Total	$ 4,912,757	$ 4,912,757

Reclamation deposit

The Company has reclamation bonds of $77,035 (December 31, 2010 - $76,290; January 1, 2010 - $69,681) to cover potential disturbances on the property.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were comprised of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	$ 46,523	$ 48,724	$ 106,443
Due to related parties	21,554	23,288	23,224
Total	$ 68,077	$ 72,012	$ 129,667

9. CAPITAL STOCK

[a] Common shares

The Company has authorized capital stock of unlimited common shares without par value.

In January 2010, the Company completed a private placement for gross proceeds of $750,000 through the issuance of 5,000,000 units at a price of $0.15 per unit. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of $0.25 per common share until July 7, 2011. Share issuance costs consisted of $49,774 and 224,000 finder's warrants, valued at $18,835. Each warrant is exercisable in to one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of $0.25 per common share.

In January 2011, the Company completed a private placement for gross proceeds of $260,000 through the issuance of 3,250,000 units at a price of $0.08 per unit. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of $0.15 per common share until July 27, 2012. Share issuance costs consisted of $26,440 and 210,000 finder's units, valued at $16,800. Each finder's unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of $0.15 per common share until July 27, 2012.

[b] Stock options

The Company grants stock options to employees and consultants as compensation for services, pursuant to its incentive Share Option Plan (the "Plan") options issued must have an exercise price greater than or equal to the "Discounted Market Price" of the Company's stock on the grant date. Options have a maximum expiry period of up to five years from the grant date and vest at such time as may be determined by the Board of Directors at the date of the grant. Options granted to consultants performing investor relations activities shall vest in stages over a 12-month period with a maximum of one-quarter of the options vesting in any three-month period. The number of options that may be issued under the Plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date.

In January 2010, the Company granted to certain of its directors, officers, consultants and employees options to purchase up to an aggregate of 1,100,000 common shares in the capital stock of the Company exercisable for five years at a price of $0.33 per share. The options vested 25% upon grant and a further 25% per quarter thereafter.

In February 2011, the Company granted to an investor relations consultant options, to purchase up to an aggregate of 300,000 common shares in the capital stock of the Company exercisable for two years at a price of $0.23 per share. The options vested 25% upon grant and a further 25% per quarter thereafter.

9. CAPITAL STOCK (continued)

The estimated fair value of all the options granted during the year ended December 31, 2011 was $58,236 (2010 - $283,644). The fair value per option granted was $0.19 (2010 - $0.26). The Company recorded share-based compensation expense for the year ended December 31, 2011 of $58,235 (2010 – $256,386) and capitalized $ nil (2010 - $27,258) to exploration and evaluation assets.

The fair value of stock options granted was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

Year ended December 31,	2011	2010
Risk free interest rate	1.74%	2.67%
Expected dividend yield	- %	- %
Expected stock price volatility	134%	125%
Expected life of options	2.0 years	4.5 years

Volatility was computed using historical volatility over the preceding periods equal to the expected life of the options.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance – December 31, 2009	2,300,000	$ 0.34
Granted in the year	1,100,000	0.33
Exercised in the year	(50,000)	0.10
Balance – December 31, 2010	3,350,000	0.34
Granted in the year	300,000	0.23
Exercised in the year	(200,000)	0.10
Expired in the year	(300,000)	0.39
Balance – December 31, 2011	3,150,000	$ 0.34
Exercisable – December 31, 2011	3,150,000	$ 0.34

The following stock options were outstanding at December 31, 2011:

Number of Options	Exercise Price	Expiry Date	Weighted average contractual life remaining
500,000	$ 0.53	February 9, 2012	0.11
600,000	0.51	September 18, 2012	0.72
300,000	0.23	February 1, 2013	1.09
650,000	0.10	February 2, 2014	2.09
1,100,000	0.33	January 7, 2015	3.02
3,150,000	0.34		1.75

9. CAPITAL STOCK (continued)

[c] Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance – December 31, 2009	--	$ --
Granted in year	2,724,000	0.24
Balance – December 31, 2010	2,724,000	0.24
Granted in the year	1,730,000	0.15
Expired in the year	(2,724,000)	0.24
Exercised in the year	(62,500)	0.15
Balance – December 31, 2011	1,667,500	$ 0.15

The following warrants were outstanding at December 31, 2011:

Number of Warrants	Exercise Price $	Expiry Date	Weighted average contractual life remaining
1,667,500	0.15	July 27, 2012	0.57
1,667,500			

Please refer to the Statements of Changes in Equity for a summary of changes in capital stock and reserves for the years ended December 31, 2011 and 2010. Reserves relate to stock options, agent's unit options, and compensatory warrants that have been issued by the Company, as well as accumulated other comprehensive income.

10. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2011 the Company entered into the following transactions with related parties:

a) Management fees of $168,000 (2010 - $168,000) were paid to a company owned by the Company's President.

b) Accounting fees of $42,000 (2010 - $54,000) included in professional fees were paid to a company controlled by the Company's Chief Financial Officer.

As of December 31, 2011 the Company owed $18,194 (December 31, 2010 - $18,248; January 1, 2010 - $18,724) to a company owned by the Company's President and $3,360 (December 31, 2010 - $5,040; January 1, 2010 - $4,500) to a company controlled by the Company's Chief Financial Officer.

Share-based compensation paid to management was as follows:

	Year ended December 31	
	2011	2010
Share-based compensation	$ -	$ 245,323

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

For the year ended December 31, 2011, the Company's significant non-cash financing and investing transactions consisted of:

a) The issuance of finder's units valued at $16,800 related to share issue costs;

b) The recognition of a fair value component of $15,280 in respect of options exercised;

c) The reclassification of $11,155 deferred financing costs to share issue costs;

d) Included in accounts payable and accrued liabilities is $12,821 for exploration and evaluation assets; and

e) The reclassification of $2,431 prepaids to exploration and evaluation assets.

For the year ended December 31, 2010, the Company's significant non-cash financing and investing transactions consisted of:

a) The recording of $27,259 of share-based compensation to exploration and evaluation assets;

b) The accrual of deferred financing costs of $11,155;

c) The issuance of finders' warrants valued at $18,835 related to share issue costs;

d) The reclassification of $14,271 deferred financing costs to share issue costs;

e) The reclassification of $585,000 of share subscriptions received to capital stock;

f) The recording of $10,937 of amortization to exploration and evaluation assets; and

g) The recognition of a fair value component of $3,570 in respect of options exercised.

12. DEFERRED INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2011	2010
Loss before income taxes	(480,567)	(633,014)
Expected income tax recovery at statutory rates	$ 127,000	$ 180,000
Non-deductible expenditures	(15,000)	(75,000)
Impact of future income tax rates	(6,000)	(13,000)
Share issue costs	11,000	14,000
Change in unrecognized deferred tax assets	(129,000)	(69,000)
Other	12,000	(37,000)
Total income tax (expense) recovery	$ -	$ -

12. DEFERRED INCOME TAXES (continued)

The nature of the tax effects of the temporary differences and the tax loss carry forwards giving rise to the deferred tax assets are summarized below:

	2011	2010
Future income tax assets:		
Non-capital loss carryforwards	$ 587,000	$ 468,000
Equipment	28,000	28,000
Resource deductions	1,508,000	1,508,000
Share issue costs	14,000	16,000
Other	14,000	14,000
Unrecognized deferred tax assets	2,151,000	2,034,000

The Company has available for deduction against future taxable income non-capital losses in Canada and in the U.S.A. of approximately $2,335,000. These losses, if not utilized, will expire through to 2031. These tax assets have not been recognized as it is not probable that they can be realized.

13. SEGMENTED INFORMATION

The Company operates in one industry, being mineral exploration – in two geographic segments, being Canada and the United States.

	Canada ($)	United States ($)	Total ($)
January 1, 2010			
Exploration and evaluation assets	-	4,715,954	4,715,954
Equipment	-	10,937	10,937
Total	-	4,726,891	4,726,891
December 31, 2010			
Exploration and evaluation assets	-	4,912,757	4,912,757
December 31, 2011			
Exploration and evaluation assets	-	5,086,092	5,086,092

14. CAPITAL MANAGEMENT

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 exploration and evaluation assets and to maintain a flexible capital structure for its projects for the benefit of its stakeholders, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares. The Company includes the components of shareholders' equity in its management of capital.

14. CAPITAL MANAGEMENT (continued)

As at December 31, 2011, the Company had capital resources consisting of cash and marketable securities. 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 the capital structure, the Company may attempt to issue new shares or adjust the amount of cash.

The Company's investment policy is to invest its cash in demand investment instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry its exploration and development plans and operations through its current operating year.

15. FINANCIAL INSTRUMENTS AND RISK

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of cash and marketable securities are determined using level one of the fair value hierarchy. The carrying value of receivables, accounts payable and accrued liabilities and amount due to related party approximate their fair value because of the short-term nature of these instruments. Marketable securities are adjusted to quoted market value at each reporting period.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, marketable securities and receivables. Management believes that the credit risk concentration with respect to cash, marketable securities and investments is remote. Receivables are due primarily from a government agency.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at December 31, 2011, the Company had a cash balance of $435,539 to settle current liabilities of $68,077. All of the Company's financial liabilities are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest rate risk

The Company has cash balances and no debt. The Company's current policy is to invest excess cash in investment-grade demand deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The assumed 1% change in interest rates would have an immaterial impact on profit or loss.

15. FINANCIAL INSTRUMENTS AND RISK (continued)

(b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars. However, management believes the risk is not currently significant.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

16. TRANSITION TO IFRS

As stated in Note 2, these Consolidated Financial Statements are for the year covered by the Company's first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the Consolidated Financial Statements for the years ended December 31, 2011 and 2010, and for the opening IFRS statement of financial position on January 1, 2010 (the "Transition Date") and December 31, 2010.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

- To apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and
- To apply the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as at the Transition Date. The Company re-measured all provisions, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. This was done using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion, and amortization under IFRS up to the Transition Date.

The Company has determined that no adjustments for the transition from pre-changeover GAAP to IFRS were required in the Consolidated Financial Statements listed above.

Exemption for cumulative translation differences

IFRS 1 permits cumulative translation gains and losses on the conversion and consolidation of foreign subsidiaries' financial statements and equity method investments that were generated under Canadian GAAP to be reset to zero at the transition date. The Company has chosen to apply this election. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

IFRS mandatory exception

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

16. TRANSITION TO IFRS (continued)

Estimates

Hindsight is not used to create or revise 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 for the same date under the previous GAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010, are consistent with its Canadian GAAP estimates for the same date.

17. SUBSEQUENT EVENT

On February 9, 2012, 500,000 options exercisable at $0.53 expired unexercised.