

APOGEE SILVER LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three months ended September 30, 2011 and 2010
(expressed in Canadian dollars)

reflecting the Company's adoption of
International Financial Reporting Standards ("IFRS"), as
issued by the International Accounting Standards Board ("IASB")

UNAUDITED

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

APOGEE SILVER LTD.

Condensed Interim Consolidated Statements of Financial Position

UNAUDITED

in Canadian dollars

	Notes	September 30, 2011	June 30, 2011 (Note 19)	July 1, 2010 (Note 19)
ASSETS				
Current assets:				
Cash and cash equivalents		\$ 20,423,619	\$ 24,310,087	\$ 2,114,843
Amounts receivable		146,858	445,968	71,147
Advances		153,123	10,129	-
Prepaid expenses		37,198	44,412	90,662
		20,760,798	24,810,596	2,276,652
Non-current assets:				
Long-term advances	7	174,672	306,206	174,672
Equipment	8	241,973	45,272	29,875
Exploration and development properties	9	25,652,963	21,303,536	12,133,660
TOTAL ASSETS		\$ 46,830,406	\$ 46,465,610	\$ 14,614,859
LIABILITIES AND EQUITY				
Current:				
Accounts payable and accrued liabilities	10	\$ 1,495,446	\$ 1,379,127	\$ 364,761
Non-current:				
Deferred income tax liability		128,000	128,000	-
Total liabilities		1,623,446	1,507,127	364,761
Equity:				
Share capital	11	60,202,272	59,879,292	28,399,048
Shares to be issued	9	1,170,000	1,170,000	-
Share-based payments reserve	12	5,913,968	5,779,592	3,115,414
Deficit		(22,079,280)	(21,870,401)	(17,264,364)
Total equity		45,206,960	44,958,483	14,250,098
TOTAL LIABILITIES AND EQUITY		\$ 46,830,406	\$ 46,465,610	\$ 14,614,859
Nature of operations and going concern	1			
Commitments and contingencies	17			
Subsequent events	18			

Approved on behalf of the Directors:

"Neil Ringdahl"

Director

"Francois Perron"

Director

APOGEE SILVER LTD.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

UNAUDITED

in Canadian dollars

	Three months ended September 30	
	2011	2010
	\$	\$
Expenses		
Consulting, management and professional fees	\$ 523,147	\$ 192,894
Travel and promotion	69,471	18,213
Shareholder communications	50,300	53,579
Office and general expenses	42,422	21,104
Transfer agent and filing fees	5,813	656
Amortization	25,338	116
Net loss for the period	716,491	286,562
Interest (income)	(56,321)	(2,518)
Foreign exchange (gain)/loss	(424,250)	2,036
Comprehensive loss for the period	\$ 235,920	\$ 286,080
Loss per share	\$ 0.00	\$ 0.00
Weighted average number of common shares outstanding - basic and diluted	290,679,320	139,224,056

APOGEE SILVER LTD.

Condensed Interim Consolidated Statements of Cash Flows

UNAUDITED

in Canadian dollars

	Notes	Three months ended September 30,	
		2011	2010
Cash and cash equivalents (used in) provided by			
Operating activities			
Net loss		\$ (235,920)	\$ (286,080)
Item not involving cash:			
Amortization		25,338	116
Share-based payments		123,500	94,750
Option valuation		95,397	-
Working capital adjustments:			
Change in amounts receivable		299,110	(35,390)
Change in advances		(11,460)	-
Change in prepaid expenses		7,214	25,031
Change in accounts payable		(309,909)	64,418
Net cash and cash equivalents (used in) operating activities		(6,730)	(137,155)
Financing activities			
Shares issued from exercise of warrants		265,500	-
Net cash and cash equivalents provided by financing activities		265,500	-
Investing activities			
Purchase of equipment		(222,039)	-
Interest in exploration and development		(4,349,427)	(517,073)
Working capital adjustments related to investing activities		426,228	(152,486)
Net cash and cash equivalents (used in) investing activities		(4,145,238)	(669,559)
Change in cash and cash equivalents		(3,886,468)	(806,714)
Cash and cash equivalents, beginning of the period		24,310,087	2,114,843
Cash and cash equivalents, end of the period		\$ 20,423,619	\$ 1,308,129
Cash and cash equivalents consist of :			
Cash		\$ 16,985,096	\$ 105,882
Cash equivalents		3,438,523	1,202,247
		20,423,619	1,308,129
SUPPLEMENTAL INFORMATION			
Interest paid		\$ 10	\$ 22

APOGEE SILVER LTD.

Condensed Interim Consolidated Statements of Changes in Equity

UNAUDITED

in Canadian dollars

	No.	Share Capital	Shares to be issued	Share-based payment reserve	Deficit	Total
		\$	\$	\$	\$	\$
Balance, June 30, 2011	289,188,559	59,879,292	1,170,000	5,779,592	(21,870,401)	44,958,483
Warrants exercised	2,562,000	322,980	-	(57,480)	-	265,500
Stock-based compensation	-	-	-	123,500	-	123,500
Options valuation	-	-	-	95,397	-	95,397
Options expired	-	-	-	(27,041)	27,041	-
Loss for the period	-	-	-	-	(235,920)	(235,920)
Balance, September 30, 2011	291,750,559	60,202,272	1,170,000	5,913,968	(22,079,280)	45,206,960
Balance, July 1, 2010	139,224,056	28,399,048	-	3,115,414	(17,264,364)	14,250,098
Options granted	-	-	-	94,750	-	94,750
Options expired	-	-	-	(18,130)	18,130	-
Loss for the period	-	-	-	-	(286,080)	(286,080)
Balance, September 30, 2010	139,224,056	28,399,048	-	3,192,034	(17,532,314)	14,058,768
Balance, July 1, 2010	139,224,056	28,399,048	-	3,115,414	(17,264,364)	14,250,098
Private placement, net of cash issue costs	127,090,058	29,489,898	-	-	-	29,489,898
Warrants issued to brokers on private placement	-	(953,182)	-	953,182	-	-
Warrant valuation on private placement	-	(1,539,181)	-	1,539,181	-	-
Warrants exercised	17,024,445	2,339,389	-	(477,483)	-	1,861,906
Warrants expired	-	-	-	(4,500)	4,500	-
Options expired	-	-	-	(808,334)	808,334	-
Options exercised	850,000	193,320	-	(65,820)	-	127,500
Shares issued on property acquisition of January 28, 2011	5,000,000	1,950,000	-	-	-	1,950,000
Stock-based compensation	-	-	-	1,527,952	-	1,527,952
Valuation of shares to be issued to Golden Minerals	-	-	1,170,000	-	-	1,170,000
Loss for the period	-	-	-	-	(5,418,871)	(5,418,871)
Balance, June 30, 2011	289,188,559	59,879,292	1,170,000	5,779,592	(21,870,401)	44,958,483

APOGEE SILVER LTD.

Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian dollars unless otherwise noted)

1. Nature of operations and going concern

Apogee Silver Ltd. (formerly Apogee Minerals Ltd.) ("Apogee" or the "Company") was incorporated in British Columbia, Canada on May 25, 1987 to engage in mineral exploration and development activities. The Company was continued under the laws of the Province of Ontario on January 21, 2005. The Company currently has interests in exploration and development properties in Bolivia. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in exploration and development properties contain mineral reserves which are economically recoverable. The Company's assets that may also be subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty. The registered head office of the Company is located at 65 Queen Street West, Suite 815, Toronto, Ontario, Canada.

Pursuant to a special resolution passed by the shareholders of the Company at the Annual and General Meeting held on March 11, 2011, the Company changed its name to "Apogee Silver Ltd." in order to reflect the Company's focus on exploration and development of silver projects. The Company's ticker symbol on the TSX Venture Exchange ("TSX-V") remained unchanged and is "APE".

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

The unaudited condensed interim consolidated financial statements of the Company for the three months ended September 30, 2011 were reviewed, approved and authorized for issue by the Board of Directors on December 16, 2011.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

2. Basis of preparation

These condensed interim consolidated financial statements of the Company and its subsidiary were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting and by IFRS 1, First-time Adoption of IFRS. These condensed interim consolidated financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its June 30, 2012 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in notes along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations, comprehensive income, and the statements of financial position and cash flows.

As these are the Company's first set of condensed interim consolidated financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2011 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 interim filings beyond the first quarter of 2012, the Company may not provide the same amount of disclosure as included in the September 30, 2011 Condensed Interim Consolidated Financial Statements under IFRS. In 2013 and beyond, the reader will be able to rely on the annual consolidated financial statements, which will be prepared in accordance with IFRS.

APOGEE SILVER LTD.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010 - Unaudited

(Expressed in Canadian dollars unless otherwise noted)

2. Basis of preparation (continued)

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

3. Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after July 1, 2011 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded thereof.

IFRS 7, Financial Instruments – Disclosures (“IFRS 7”) was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

IFRS 9, Financial Instruments -- Classification and Measurement (“IFRS 9”) was issued November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013, with early adoption permitted. The Company has not yet determined the potential impact of the amendments to IFRS 9 on its financial statements.

IFRS 10 Consolidated Financial Statements (“IFRS 10”) provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 13 Fair Value Measurement converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

4. Principles of consolidation

The condensed interim consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiary, Apogee Minerals Bolivia S.A.

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases. All material intercompany transactions are eliminated on consolidation.

APOGEE SILVER LTD.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010 - Unaudited

(Expressed in Canadian dollars unless otherwise noted)

5. Significant accounting judgments, estimates and assumptions

The preparation of these condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Information about critical judgements and estimates in applying accounting policies that have most significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Asset carrying values and impairment charges
- Estimation of asset lives
- Recognition of deferred taxes
- Capitalization of exploration and evaluation costs
- Contingencies
- Acquisitions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year included:

- Asset carrying values and impairment charges
- Estimation of close down and restoration costs and the timing of expenditures
- Estimation of environmental cleanup and the timing of expenditure and related accretion
- Contingencies
- Depletion, depreciation and amortization
- Valuation of investments that are not publicly traded

6. Significant accounting policies

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. The functional currency of the Company and its subsidiary is the Canadian dollar.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payment note.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

APOGEE SILVER LTD.

Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian dollars unless otherwise noted)

6. Significant accounting policies (continued)

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For those options that expire after vesting, the recorded value is transferred to retained earnings (deficit).

Taxation

Current tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Interest in mineral exploration properties

Exploration and evaluation properties

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities, net of government assistance received, are capitalized to exploration and evaluation. Exploration and evaluation expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within mineral properties and deferred exploration expenditures.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

APOGEE SILVER LTD.

Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian dollars unless otherwise noted)

6. Significant accounting policies (continued)

Development

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to construction are capitalized as construction-in-progress and classified as a component of mineral properties and deferred exploration expenditures. Costs associated with the commissioning of new assets, in the period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues.

Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

When a mine construction project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions or improvements, underground mine development or mineable reserve development.

Depletion/depreciation/amortization

Accumulated mine development costs are depleted on a unit-of-production basis over the estimated economically recoverable reserves of the mine concerned.

Property, plant and equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

Depreciation/amortization

Equipment is generally depreciated on a declining balance basis over their estimated useful lives as follows:

- Computer equipment – 30%
- Computer software – 100%
- Office equipment – 20%

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation/amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

Major maintenance and repairs

Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Company through an extended life, the expenditure is capitalized.

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets, which is immediately written off. All other day-to-day maintenance costs are expensed as incurred.

Impairment of non-financial assets

The carrying values of interest in mineral exploration properties, and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company's of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets. This generally results in the Company evaluating its non-financial assets on a geographical basis.

APOGEE SILVER LTD.

Notes to the Condensed Interim Consolidated Financial Statements

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6. Significant accounting policies (continued)

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of operations so as to reduce the carrying amount to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of operations.

Financial assets

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash and cash equivalents, amounts receivable and advances.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income and finance costs in the consolidated statement of operations.

The Company evaluates its financial assets at fair value through profit and loss (held for trading) to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect, in rare circumstances, to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of operations. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of operations. The losses arising from impairment are recognised in the consolidated statement of operations.

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6. Significant accounting policies (continued)

Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - (a) the Company has transferred substantially all the risks and rewards of the asset; or
 - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a 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 have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of operations. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of operations. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of operations.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include accounts payables.

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6. Significant accounting policies (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated statement of operations. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the consolidated statement of operations when the liabilities are derecognised, as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of operations.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of operations.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Cash

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents is as defined above, net of outstanding bank overdrafts.

Provisions

General

Provisions are recognised when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of operations, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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6. Significant accounting policies (continued)

Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the consolidated statement of operations as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognised immediately in the consolidated statement of operations.

Employee entitlements

Employee entitlements to annual leave are recognized as the employees earn them. A provision, stated at current cost, is made for the estimated liability at period end.

Earnings (loss) per share

Earnings (loss) per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding share options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive.

7. Long-term advances

	September 30, 2011	June 30, 2011	July 1, 2010
Advance to Valencia	\$ 174,672	\$ 306,206	\$ 174,672
Advances to suppliers	-	-	-
	\$ 174,672	\$ 306,206	\$ 174,672

In October 2009, the Company entered into a letter agreement with Valencia Ventures Inc. ("Valencia") whereby the Company has agreed to purchase a 75% interest in Valencia's Cachinal properties. In consideration for this interest, the Company would pay \$200,000 in cash, and issue 3,000,000 units of the Company, where each unit would comprise of one common share of the Company and one common share purchase warrant. Each warrant would entitle Valencia to acquire one common share of the Company at an exercise price of \$0.25 for a period of twelve months. The Company would have the option to purchase the remaining 25% interest in the Cachinal properties with a payment of \$1,000,000 at any time prior to the third anniversary of the definitive agreement. Completion of this acquisition remains subject to regulatory approval.

The Company and Valencia share a common director and common officers. As at September 30, 2011, the Company has advanced \$174,672 of the \$200,000 cash payment required in relation to this agreement. The advance is due on demand, unsecured, non interest bearing with no fixed terms of repayment. This sum is included in long term advances on the balance sheet.

During the three months ended September 30, 2011, the parties agreed in principle that the Company would purchase all of Valencia's participating interest in Compania Minera Valencia Ventures – Chile Limitada ("Compania Minera"). Compania Minera holds Valencia's entire 80% participation interest in each of the Cachinal Property and the Nueva Junca Silver Property, both located in northern Chile, for an aggregate purchase price of \$500,000 in cash and 3,000,000 common shares of Apogee. The completion of the transaction is subject to completion of a definitive agreement and TSX-V approval.

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8. Equipment

	September 30, 2011			June 30, 2011			July 1, 2010		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer	\$ 26,665	\$ 6,370	\$ 20,295	\$ 18,018	\$ 15,752	\$ 2,266	\$ 15,650	\$ 15,288	\$ 362
Software	48,918	24,459	24,459						
Office furniture and equipment	191,229	80,381	110,848	125,040	82,034	43,006	95,685	71,216	24,469
Mine Machinery and equipment	90,292	3,921	86,371	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-	50,557	45,513	5,044
	<u>\$ 357,104</u>	<u>\$ 115,131</u>	<u>\$ 241,973</u>	<u>\$ 143,058</u>	<u>\$ 97,786</u>	<u>\$ 45,272</u>	<u>\$ 161,892</u>	<u>\$ 132,017</u>	<u>\$ 29,875</u>

Substantially all of the Company's equipment is located in Bolivia.

9. Exploration and development properties

	Pulacayo Paca, Bolivia
Cost as at July 1, 2010	\$ 12,133,660
Acquisition costs	3,582,624
Exploration and development expenditures	5,587,252
Cost as at June 30, 2011	21,303,536
Acquisition costs	-
Exploration and development expenditures	4,349,427
Cost as at September 30, 2011	25,652,963

Pulacayo-Paca, Bolivia

In September 2005, Apex Silver Mines Limited ("Apex") and the Company entered into an agreement on the Pulacayo-Paca project in Bolivia. Under the terms of the agreement, the Company has the right to earn from Apex a 60% interest in the property by completing a bankable feasibility study by July 30, 2009 (not completed) and by spending US\$1,000,000 in exploration within three years of the earn-in period, including US\$250,000 within the first six months of the earn-in period (completed). Apex has agreed to extend the due date for the bankable feasibility study while Apex and the Company negotiate the ongoing terms of the agreement. The Company is the operator of all work programs on the property.

In February, 2010, the Company announced that it had successfully concluded negotiations with Golden Minerals ("Golden Minerals"), formerly Apex, and had entered into a non-binding Term Sheet to acquire 100% of the Pulacayo-Paca property. In January 2011, the Company announced that it has entered into a definitive agreement (the "Agreement") with Golden Minerals to acquire all of the issued and outstanding shares of an indirectly held subsidiary of Golden Minerals which holds a 100% interest in the Pulacayo-Paca Project. On January 28, 2011, Apogee issued 5,000,000 common shares of the Company at a value of \$1,950,000 upon closing of the transaction and shall be required to issue an additional 3,000,000 common shares and pay Golden Minerals a cash fee in the amount of US\$500,000 eighteen months following closing of the transaction. As such, the 3,000,000 common shares to be issued to Golden Minerals are recorded based on the fair value of the Company's stock price on January 28, 2011, for total of \$1,170,000, and the cash fee of US\$500,000 is accrued at a present value of \$430,000 at September 30, 2011.

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10. Accounts payable and accrued liabilities

	September 30, 2011	June 30, 2011	July 1, 2010
Exploration payables	\$ 988,392	\$ 691,330	\$ 111,766
Corporate payables	507,054	687,797	252,995
	\$ 1,495,446	\$ 1,379,127	\$ 364,761

11. Share capital

a) As at September 30, 2011, June 30, 2011 and July 1, 2010, the Company's authorized number of common shares was unlimited without par value.

b) Common shares	Number of shares	Amount
Balance, July 1, 2010	139,224,056	28,399,048
Private placement, net of cash issue costs \$2,342,102	127,090,058	\$ 29,489,898
Warrants issued to brokers on private placement	-	(953,182)
Warrant valuation on private placement	-	(1,539,181)
Warrants exercised	17,024,445	2,339,389
Options exercised	850,000	193,320
Shares issued on property acquisition of January 28, 2011	5,000,000	1,950,000
Balance, June 30, 2011	289,188,559	\$ 59,879,292
Warrants exercised	2,562,000	322,980
Balance, September 30, 2011	291,750,559	\$ 60,202,272

12. Share-based payments reserve

Employee share option plan

Under the Company's stock option plan (the "Plan"), the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. Options granted under the Plan will be for a term not exceeding 5 years.

The Plan provides that it is solely within the discretion of the Board to determine who should receive stock options and in what amounts. In no case (calculated at the time of grant) shall the Plan result in:

- The number of options granted in a 12-month period to any one consultant exceeding 2% of the issued shares of the Company;
- The aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Company;
- The number of options granted in a 12-month period to employees or consultants undertaking investor relations activities exceeding in aggregate 2% of the issued shares of the Company;
- The aggregate number of common shares reserved for issuance to any one individual upon the exercise of options granted under the Plan or any previously established and outstanding stock option plans or grants exceeding 5% of the issued shares of the Company in any 12-month period.

650,000 stock options were granted during the three months ended September 30, 2011 (September 30, 2010: \$nil). \$218,897 stock based compensation expense was recorded for three months ended September 30, 2011 (September 30, 2010: \$nil). During the quarter ended September 30, 2011, 100,000 stock options expired unexercised (September 30, 2010: 70,000 expired unexercised).

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12. Share-based payments reserve (continued)

The following share-based payment arrangements were in existence during the current and prior reporting periods:

	No. of options	Weighted Average Exercise Price	Grant Date Value of options	No. of warrants	Weighted Average Exercise Price	Grant Date Value of warrants	Total Value
July 1, 2010	8,264,000	\$ 0.34	\$ 2,318,519	39,887,493	\$ 0.14	\$ 1,272,242	\$ 3,590,761
Granted	10,865,000	0.24	1,527,952	45,581,835	0.28	2,492,363	4,020,315
Exercised	(850,000)	0.81	(65,820)	(17,024,445)	0.11	(477,483)	(543,303)
Expired	(1,414,000)	0.37	(808,334)	(150,000)	0.10	(4,500)	(812,834)
June 30, 2011	16,865,000	\$ 0.25	\$ 2,972,317	68,294,883	\$ 0.24	\$ 3,282,622	\$ 6,254,939
Granted	650,000	0.24	218,897	-	-	-	218,897
Exercised	-	-	-	(2,562,000)	0.10	(57,480)	(57,480)
Forfeited	(100,000)	0.37	(27,041)	-	-	-	(27,041)
September 30, 2011	17,415,000	\$ 0.25	\$ 3,164,173	65,732,883	\$ 0.21	\$ 3,225,142	\$ 6,389,315

STOCK OPTIONS:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected Dividend Yield	Risk-free interest rate
100,000	100,000	9-Apr-07	9-Apr-12	0.60	\$ 42,200	107%	5.00	0%	4.13%
50,000	50,000	1-Sep-07	1-Sep-12	0.41	12,950	73%	5.00	0%	4.16%
1,150,000	1,150,000	4-Sep-07	4-Sep-12	0.41	371,415	73%	5.00	0%	4.16%
200,000	200,000	16-Nov-07	16-Nov-12	0.35	55,137	72%	5.00	0%	3.76%
100,000	100,000	28-Nov-07	28-Nov-12	0.35	27,686	72%	5.00	0%	3.76%
200,000	200,000	3-Dec-07	3-Dec-12	0.36	54,482	72%	5.00	0%	3.55%
25,000	25,000	11-Jan-08	11-Jan-13	0.26	4,387	76%	5.00	0%	3.17%
25,000	25,000	9-Feb-08	9-Feb-13	0.30	3,043	73%	5.00	0%	3.05%
200,000	200,000	12-Feb-08	12-Feb-13	0.32	48,106	73%	5.00	0%	3.23%
1,500,000	1,500,000	20-Jun-08	20-Jun-13	0.40	330,000	96%	5.00	0%	2.88%
2,350,000	2,350,000	27-Aug-09	27-Aug-14	0.10	69,560	92%	5.00	0%	1.23%
500,000	500,000	4-Sep-09	4-Sep-14	0.10	2,552	91%	5.00	0%	1.29%
1,745,000	1,745,000	23-Aug-10	23-Aug-15	0.10	87,250	101%	5.00	0%	1.03%
7,120,000	7,120,000	8-Dec-10	8-Dec-15	0.27	1,193,629	86%	5.00	0%	1.40%
100,000	100,000	4-Mar-11	4-Mar-16	0.28	29,693	105%	5.00	0%	1.80%
600,000	600,000	16-Mar-11	16-Mar-16	0.28	144,558	104%	5.00	0%	1.50%
800,000	800,000	2-Jun-11	2-Jun-16	0.25	88,678	99%	5.00	0%	2.71%
650,000	-	21-Jul-11	21-Jul-16	0.24	123,500	100%	5.00	0%	1.47%
17,415,000	16,765,000				\$ 2,688,826				

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12. Share-based payments reserve (continued)

WARRANTS AND BROKER UNITS:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected Dividend Yield	Risk-free interest rate
1,250,000	1,250,000	16-Oct-09	16-Oct-11	0.14	\$ 47,500	111%	2.00	0%	1.60%
4,700,000	4,700,000	18-Dec-09	18-Dec-11	0.14	178,600	119%	2.00	0%	1.30%
413,311	413,311	18-Dec-09	18-Dec-11	0.10	16,532	119%	2.00	0%	1.30%
13,775,000	13,775,000	12-May-10	12-May-12	0.20	535,766	100%	2.00	0%	1.62%
480,500	480,500	31-May-10	31-May-12	0.20	9,610	103%	2.00	0%	1.62%
5,364,000	5,364,000	3-May-11	3-Nov-12	0.28	750,960	109%	1.50	0%	1.59%
36,049,112	36,049,112	3-Dec-10	3-Dec-12	0.25	1,441,964	86%	2.00	0%	1.63%
* 2,122,014	2,122,014	3-Dec-10	3-Dec-12	0.18	149,473	86%	2.00	0%	1.69%
1,578,946	1,578,946	17-Dec-10	17-Dec-12	0.25	94,737	115%	2.00	0%	1.63%
65,732,883	65,732,883				\$ 3,225,142				

* These are exercisable into units consisting of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.25 until December 3, 2012.

13. Financial instruments

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, financial liability and are disclosed in note 6.

Financial assets and financial liabilities as at September 30, 2011, June 30, 2011 and July 1, 2010 were as follows:

	Cash, loans and receivables, other financial liabilities
September 30, 2011	
Cash and cash equivalents	\$ 20,423,619
Amounts receivables	146,858
Advances	153,123
Accounts payable	(1,495,446)
	Cash, loans and receivables, other financial liabilities
June 30, 2011	
Cash and cash equivalents	\$ 24,310,087
Amounts receivables	445,968
Advances	10,129
Accounts payable	(1,379,127)
	Cash, loans and receivables, other financial liabilities
July 1, 2010	
Cash	\$ 2,114,843
Amounts receivables	71,147
Accounts payable	(364,761)

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13. Financial instruments (continued)

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the quarter ended September 30, 2011 and 2010.

Credit risk

The Company's credit risk is primarily attributable to amounts receivable and advances. The Company has no significant concentration of credit risk arising from operations.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2011, the Company had a cash and cash equivalents balance of \$20,423,619 (June 30, 2011: \$24,310,087; July 1, 2010: \$2,114,843) to settle current liabilities of \$1,495,446 (June 30, 2011: \$1,379,127; July 1, 2010: \$364,761). Approximately \$25,000 of the Company's financial liabilities at September 30, 2011 have contractual maturities of less than 30 days and are subject to normal trade terms (June 30, 2011: \$28,000; July 1, 2010: \$42,000).

Market risk

(a) Interest rate risk

The Company has cash balances, amounts receivable, and advances, at September 30, 2011. The Company's current policy is to invest excess cash in investment-grade short-term 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 Company considers interest rate risk to be minimal as investments are short term, the Company's amounts receivable and advances bear no interest, the Company does not carry interest-bearing debt, and expects future financings will be primarily secured from private placements.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operating, exploration and administrative expenses in Chile on a cash call basis in United States dollars which is then converted to Chilean Pesos. Currently, the Company does not hedge its foreign exchange risk.

(c) Commodity price risk

The Company is exposed to price risk with respect to commodity prices, specifically gold and silver. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for these commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. As the Company does not have producing assets, management believes this risk is minimal.

The carrying value of cash equivalents, amounts receivable, advances, and accounts payable reflected in the consolidated statement of financial position approximate fair value because of the limited term of these instruments.

Sensitivity analysis

Price risk is remote as the Company is not a producing entity.

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14. Capital management

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to consist of share capital, stock options and warrants.

The properties in which the Company currently has an interest are in the exploration and development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development, and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the periods ended September 30, 2011 and 2010. The Company and its subsidiary are not subject to externally imposed capital requirements.

15. Related party disclosures

During the period, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

	Sales of goods and services		Purchases of goods and services	
	Three months ended September 30		Three months ended September 30	
	2011	2010	2011	2010
2227929 Ontario Inc.	\$ -	\$ -	\$ 26,164	\$ 28,603
Forbes & Manhattan, Inc.	-	-	30,000	7,500

The Company shares office space with other companies who may have similar officers or directors. The costs associated with this space are administered by 2227929 Ontario Inc. Mr. Stan Bharti, a director of the Company, is an officer of Forbes & Manhattan, Inc. An administration fee of \$25,000 per month is charged by Forbes & Manhattan, Inc.

The following balances were outstanding at the end of the reporting period:

	Amounts owed to related parties			Amounts owed by related parties		
	September 30, 2011	June 30, 2011	July 1, 2010	September 30, 2011	June 30, 2011	July 1, 2010
2227929 Ontario Inc.	\$ 12,125	\$ -	\$ 5,167	\$ 53,649	\$ 26,597	\$ 46,079
Alexis Mineral Corporation	-	-	2,581	-	-	-
Valencia Ventures Inc.	-	-	539	-	-	-
Other miscellaneous	-	1,243	10,000	-	-	721

The amounts outstanding are unsecured. No guarantees have been given or received. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel during the period were as follows:

	Three months ended September 30	
	2011	2010
Short-term benefits	\$ 132,500	\$ 72,000
Share-based payments	38,000	47,500

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15. Related party disclosures (continued)

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

16. Segmented information

The Company's operations comprise a single operating segment engaged in mineral exploration. Geographic segmentation of the Company's assets are as follows:

September 30, 2011					
	Current assets	Equipment	Other long term assets	Interest in mineral exploration properties	TOTAL
Canada	\$ 19,925,253	\$ 46,110	\$ 174,672	\$ -	\$ 20,146,035
Bolivia	835,545	195,863	-	25,652,963	26,684,371
	\$ 20,760,798	\$ 241,973	\$ 174,672	\$ 25,652,963	\$ 46,830,406

June 30, 2011					
	Current assets	Equipment	Other long term assets	Interest in mineral exploration properties	TOTAL
Canada	\$ 24,269,426	\$ 3,693	\$ 174,672	\$ -	\$ 24,447,791
Bolivia	541,170	41,579	131,534	21,303,536	22,017,819
	\$ 24,810,596	\$ 45,272	\$ 306,206	\$ 21,303,536	\$ 46,465,610

July 1, 2010					
	Current assets	Equipment	Other long term assets	Interest in mineral exploration properties	TOTAL
Canada	\$ 2,133,459	\$ 2,146	\$ 174,672	\$ -	\$ 2,310,277
Bolivia	143,193	27,729	-	12,133,660	12,304,582
	\$ 2,276,652	\$ 29,875	\$ 174,672	\$ 12,133,660	\$ 14,614,859

17. Commitments and contingencies

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$1,200,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under these contracts approximate \$423,000 due within one year.

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

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18. Subsequent events

Subsequent to quarter end, 3,047,061 warrants expired unexercised and 3,316,250 were exercised.

19. Transition to IFRS

The Company's consolidated financial statements for the year ending June 30, 2012 will be the first annual financial statements that comply with IFRS and these condensed interim consolidated financial statements were prepared as described in note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2012 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was July 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 will be June 30, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Initial elections upon adoption

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

IFRS Exemption Options

1. *Share-based payments* - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.
2. *Business combinations* - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The Company elected to apply IFRS 3 prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.
3. *IAS 27 – Consolidated and separate financial statements*

In accordance with IFRS 1, if a Company elects to apply IFRS 3 *Business Combinations* retrospectively, *IAS 27 Consolidated and Separate Financial Statements* must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.
4. *IAS 32 – Compound financial instruments*

In accordance with IFRS 1, the Company has elected not to revalue compound financial instruments where the liability component does not exist as of the transition date.

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19. Transition to IFRS (continued)

IFRS Mandatory Exceptions

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the consolidated statements of financial position from the reclassifications discussed below did not impact the consolidated statement of operation and comprehensive loss for the three months ended September 30, 2010 or the consolidated statement of cash flows for any period presented. Consequently, reconciliations between Canadian GAAP and IFRS are not presented for those statements.

Changes in accounting policies:

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

a) Share-based compensation

IFRS 2 is effective for the Company as of July 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Stock options and share grants prior to November 7, 2002 are not taken into account for IFRS 2;
- Stock options and share grants subsequent to November 7, 2002 are only taken into account if they have not vested as at July 1, 2010; and,
- From July 1, 2010, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in note 6.

Forfeitures

Canadian GAAP - Forfeitures of awards are recognized as they occur

IFRS – An estimate is required for the number of awards expected to vest, which would be revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. No material difference was determined and consequently no adjustment was made.

Expiration of share-based compensation

Canadian GAAP – Under Canadian GAAP, the Company's policy was to leave the value recorded for expired, unexercised stock options in contributed surplus, and to reclassify the value of expired, unexercised warrants to contributed surplus.

IFRS – The Company has changed its policy regarding expired share-based compensation whereby amounts recorded for expired, unexercised stock options and warrants are transferred to retained earnings/(deficit) on expiry. The impact of this change was to decrease contributed surplus and deficit by \$5,731,811 at June 30, 2011 (July 1, 2010: \$4,918,977).

b) Asset acquisition

Canadian GAAP – A deferred tax liabilities is recognized for taxable temporary differences that arise from the initial recognition of an asset.

IFRS – A deferred tax liabilities is not recognized for taxable temporary differences that arise from the initial recognition of an asset in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit (or loss).. At June 30, 2011, the impact of this change was to decrease future income tax liability by \$1,572,000 (July 1, 2010: \$nil), decrease exploration and development properties by \$2,841,000 (July 1, 2010: \$550,000), increase deficit by \$1,269,000 (July 1, 2010: \$550,000) and decrease future income tax recovery by \$719,000 (July 1, 2010: \$nil).

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19. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Financial Position as of July 1, 2010

Canadian GAAP accounts	Notes	Canadian GAAP Balances	IFRS Adjustments	IFRS Balances
Assets				
Current assets				
Cash and cash equivalents		\$ 2,114,843	\$ -	\$ 2,114,843
Amounts receivable		71,147	-	71,147
Prepaid expenses		90,662	-	90,662
		<u>2,276,652</u>	<u>-</u>	<u>2,276,652</u>
Non-current assets				
Long-term advances		174,672	-	174,672
Equipment		29,875	-	29,875
Exploration and development properties	19 b)	12,683,660	(550,000)	12,133,660
Total assets		<u>\$ 15,164,859</u>	<u>\$ (550,000)</u>	<u>\$ 14,614,859</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		364,761	-	364,761
Total liabilities		<u>364,761</u>	<u>-</u>	<u>364,761</u>
Equity				
Capital stock		28,399,048	-	28,399,048
Share-based payments reserve	19 a)	8,034,391	(4,918,977)	3,115,414
Deficit	19 a), b)	(21,633,341)	4,368,977	(17,264,364)
Total equity		<u>14,800,098</u>	<u>(550,000)</u>	<u>14,250,098</u>
Total liabilities and equity		<u>\$ 15,164,859</u>	<u>\$ (550,000)</u>	<u>\$ 14,614,859</u>

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19. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Financial Position as of September 30, 2010

Canadian GAAP accounts	Notes	Canadian GAAP Balances	IFRS Adjustments	IFRS Balances
Assets				
Current assets				
Cash and cash equivalents		\$ 1,308,129	\$ -	\$ 1,308,129
Amounts receivable		106,537	-	106,537
Prepaid expenses		104,603	-	104,603
		1,519,269	-	1,519,269
Non-current assets				
Long-term advances		174,672	-	174,672
Equipment		29,758	-	29,758
Exploration and development properties	19 b)	13,200,733	(550,000)	12,650,733
Total assets		\$ 14,924,432	\$ (550,000)	\$ 14,374,432
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		315,664	-	315,664
Total liabilities		315,664	-	315,664
Equity				
Capital stock		28,399,048	-	28,399,048
Share-based payments reserve	19 a)	8,129,141	(4,937,107)	3,192,034
Deficit	19 a), b)	(21,919,421)	4,387,107	(17,532,314)
Total equity		14,608,768	(550,000)	14,058,768
Total liabilities and equity		\$ 14,924,432	\$ (550,000)	\$ 14,374,432

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19. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Financial Position as at June 30, 2011

Canadian GAAP accounts	Notes	Canadian GAAP Balances	IFRS Adjustments	IFRS Balances
Assets				
Current assets				
Cash and cash equivalents		\$ 24,310,087	\$ -	\$ 24,310,087
Amts receivable		445,968	-	445,968
Advances		10,129	-	10,129
Prepaid expenses		44,412	-	44,412
		24,810,596	-	24,810,596
Non-current assets				
Long-term advances		306,206	-	306,206
Equipment		45,272	-	45,272
Exploration and development properties	19 b)	24,144,536	(2,841,000)	21,303,536
Total assets		\$ 49,306,610	\$ (2,841,000)	\$ 46,465,610
Liabilities				
Current liabilities				
Accounts payable		1,379,127	-	1,379,127
Long-term				
Future income tax liability	19 b)	1,700,000	(1,572,000)	128,000
Total liabilities		3,079,127	(1,572,000)	1,507,127
Equity				
Capital stock		59,879,292	-	59,879,292
Shares to be issued		1,170,000	-	1,170,000
Share-based payments reserve	19 a)	11,511,403	(5,731,811)	5,779,592
Deficit	19 a), b)	(26,333,212)	4,462,811	(21,870,401)
Total equity		46,227,483	(1,269,000)	44,958,483
Total liabilities and equity		\$ 49,306,610	\$ (2,841,000)	\$ 46,465,610

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Notes to the Condensed Interim Consolidated Financial Statements

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19. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Operations and Comprehensive Loss for the year ended June 30, 2011

Expenses						
Management and consulting fees	\$	4,399,618	\$	-	\$	4,399,618
Travel and promotion		315,581		-		315,581
Shareholder communications		288,189		-		288,189
Professional fees		184,592		-		184,592
Office and general expenses		119,368		-		119,368
Transfer agent and filing fees		90,293		-		90,293
Amortization		821		-		821
Interest		22		-		22
Interest (income)		(48,318)		-		(48,318)
Foreign exchange (gain)		(59,295)		-		(59,295)
Loss before income taxes	\$	5,290,871	\$	-	\$	5,290,871
Deferred Income tax (recovery)		(591,000)		719,000		128,000
Comprehensive loss	\$	4,699,871	\$	719,000	\$	5,418,871

Loss per share

Basic	\$	0.03	\$	0.03
Diluted	\$	0.03	\$	0.03