



CASTILLIAN RESOURCES CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2011 and 2010

(expressed in Canadian dollars)

UNAUDITED

CASTILLIAN RESOURCES CORP.

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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, expressed in Canadian dollars)

As at:	Notes	September 30, 2011 \$	December 31, 2010 \$
ASSETS			
Current assets:			
Cash and cash equivalents		4,746,842	5,044,885
Amounts receivable	15	919,603	300,390
Prepaid expenses		46,044	34,804
		5,712,489	5,380,079
Non-current assets:			
Marketable securities	8	607,380	1,168,400
Equipment		101,265	113,883
Exploration and evaluation properties	9	10,637,215	5,868,454
		17,058,349	12,530,816
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	15	1,415,154	1,760,605
Flow-through share premium liability		-	1,703,664
		1,415,154	3,464,269
Long Term:			
Liability component of convertible debenture	10	497,413	441,660
Long-term debt	10	226,714	224,576
		2,139,281	4,130,505
SHAREHOLDERS' EQUITY			
Issued capital	11	69,582,545	60,123,657
Equity component of convertible debenture	10	67,300	67,300
Commitment to issue shares		-	100,773
Equity reserves	12	3,877,484	2,907,594
Deficit		(58,608,261)	(54,799,013)
		14,919,068	8,400,311
		17,058,349	12,530,816

COMMITMENTS AND CONTINGENCIES (Notes 1, 10, 16)

APPROVED ON BEHALF OF THE BOARD:

Signed: "David Gower" _____, Director

Signed: "Bill Pearson" _____, Director

See accompanying notes to the condensed interim consolidated financial statements.

CASTILLIAN RESOURCES CORP.

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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited, expressed in Canadian dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2011 \$	2010 \$	2011 \$	2010 \$
Expenses					
Professional, consulting and management fees		204,455	129,272	824,568	340,832
Other general and administrative expenses		231,309	80,571	532,546	232,472
Share-based payments	12	-	180,000	934,750	180,000
Other gains and losses	14	604,702	243,790	3,453,956	338,746
Finance income		(22,923)	-	(64,075)	-
Finance costs		86	11	217	117
		1,017,629	633,644	5,681,962	1,092,167
Operating loss before income tax		1,017,629	633,644	5,681,962	1,092,167
Deferred income taxes	17(b)	-	-	(1,703,664)	-
Net loss and comprehensive loss for the period		1,017,629	633,644	3,978,298	1,092,167
Loss per share					
Basic and diluted		0.00	0.00	0.01	0.01
Weighted average number of shares outstanding:					
Basic and diluted	13	295,018,277	171,549,796	279,282,436	146,087,596

See accompanying notes to the condensed interim consolidated financial statements.

CASTILLIAN RESOURCES CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

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(Unaudited, expressed in Canadian dollars)

	Nine months ended September 30,	
	2011 \$	2010 \$
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss for the period	(3,978,298)	(1,092,167)
Adjustment for non-cash items		
Depreciation	1,840	13,389
Share-based payments	934,750	180,000
Deferred income taxes	(1,703,664)	-
Write down of exploration and evaluation property	2,892,936	334,378
Unrealized foreign exchange gain	(3,365)	-
Unrealized loss on marketable securities	564,385	-
Working capital adjustments		
Change in amounts receivable	(619,213)	(68,377)
Change in prepaid expenses	(24,748)	(36,692)
Change in accounts payable and accrued liabilities	4,529	(236,421)
Net cash (used in) operating activities	(1,930,848)	(905,890)
INVESTING ACTIVITIES		
Investment in exploration and evaluation properties	(7,477,861)	(1,419,178)
Acquisition of Tucano Exploration Inc.	(920)	21,444
Working capital adjustments related to investing activities	(334,719)	32,959
Net cash (used in) investing activities	(7,813,500)	(1,364,775)
FINANCING ACTIVITIES		
Issuance of convertible debenture	-	500,000
Issued common shares	10,000,000	2,858,225
Costs incurred in issuance of common shares	(701,395)	-
Exercise of warrants	142,700	-
Exercise of options	5,000	-
Net cash provided by financing activities	9,446,305	3,358,225
Change in cash and cash equivalents	(298,043)	1,087,560
Cash and cash equivalents, beginning of the period	5,044,885	50,170
Cash and cash equivalents, end of the period	4,746,842	1,137,730
Cash and cash equivalents consists of:		
Cash	490,883	136,916
Cash equivalents	4,255,959	1,000,814
	4,746,842	1,137,730
Supplemental information		
Common shares issued to acquire Tucano Exploration Inc.	-	2,498,390
Common shares issued for debt settlement	-	93,756
Common shares issued for exploration and evaluation properties	116,000	9,000
Depreciation charged to exploration and evaluation properties	12,083	51,358
Share-based payments charged to exploration and evaluation properties	-	66,000

See accompanying notes to the condensed interim consolidated financial statements.

CASTILLIAN RESOURCES CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited, expressed in Canadian dollars)

	Number of shares #	Share Capital \$	Commitment to issue shares \$	Equity component of convertible debenture \$	Equity reserves \$	Accumulated deficit \$	Total equity \$
Balance, January 1, 2010	110,971,859	52,124,104	45,000	-	2,129,332	(52,576,063)	1,722,373
Shares issued in acquisition of Tucano Exploration Inc.	24,983,900	2,498,390	-	-	-	-	2,498,390
Shares issued in debt settlement	1,201,997	93,756	-	-	-	-	93,756
Shares issued in property acquisition	168,493	9,000	-	-	-	-	9,000
Private placement, net of issuing costs	43,951,770	2,858,225	-	-	-	-	2,858,225
Value of warrants granted on private placements	-	(297,744)	-	-	297,744	-	-
Premium on flow-through shares	-	(510,962)	-	-	-	-	(510,962)
Stock-based compensation	-	-	-	-	246,000	-	246,000
Expiry of share options and warrants	-	-	-	-	(291,420)	291,420	-
Loss for the period	-	-	-	-	-	(1,092,167)	(1,092,167)
Balance, September 30, 2010	181,278,019	56,774,769	45,000	-	2,381,656	(53,376,810)	5,824,615
Balance, December 31, 2010	240,991,199	60,123,657	100,773	67,300	2,907,594	(54,799,013)	8,400,311
Private placement, net of issuing costs	50,000,000	9,298,605	-	-	-	-	9,298,605
Value of broker warrants granted on private placement	-	(250,000)	-	-	250,000	-	-
Exercise of warrants	1,427,000	185,510	-	-	(42,810)	-	142,700
Exercise of options	50,000	8,000	-	-	(3,000)	-	5,000
Transfer of shares to be issued	1,243,643	100,773	(100,773)	-	-	-	-
Shares issued for exploration and evaluation properties	1,662,500	116,000	-	-	-	-	116,000
Issuance of shares options	-	-	-	-	934,750	-	934,750
Expiry of stock options and warrants	-	-	-	-	(169,050)	169,050	-
Loss for the period	-	-	-	-	-	(3,978,298)	(3,978,298)
Balance, September 30, 2011	295,374,342	69,582,545	-	67,300	3,877,484	(58,608,261)	14,919,068

See accompanying notes to the condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Castillian Resources Corp. (the "Company" or "Castillian") is in the business of acquisition, exploration and development of mineral resource interests. The Company has exploration and evaluation properties located in South America and Canada. There has been no determination whether the Company's exploration and evaluation properties contain mineral reserves which are economically recoverable.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation 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.

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 exploration 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 requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

The Company expects to have a continuing need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operations. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying condensed interim consolidated financial statements. Such adjustments could be material.

The Company's shares are listed on the TSX Venture Exchange. The head office, principal address and records office of the Company are located at 65 Queen Street West, Suite 800, Toronto, Ontario, Canada M5H 2M5. These financial statements were reviewed, approved and authorized for issue by the Board of Directors on November 23, 2011.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with 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 December 31, 2011 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. The accounting policies followed in these interim financial statements are the same as those applied in the Company's condensed interim consolidated financial statements for the period ended March 31, 2011 and these condensed interim consolidated financial statements should be read in conjunction with the financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Company's statement of financial position as at September 30, 2010 and statements of net loss and comprehensive loss for the three and nine months ended September 30, 2010, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

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. PRINCIPLES OF CONSOLIDATION

The condensed interim consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

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.

Business Combinations and Goodwill

On the acquisition of a subsidiary, the purchase method of accounting is used to account for the acquisition as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date except for non-current assets that are classified as held for sale in accordance with IFRS 5 '*Non-current Assets Held for Sale and Discontinued Operations*', which are recognized and measured at fair value less costs to sell;
- the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;

Continued...

3. PRINCIPLES OF CONSOLIDATION (Continued)

- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in profit or loss;
- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is performed with subsequent changes in the fair value recorded through the consolidated statement of comprehensive loss.

All material intercompany transactions are eliminated on consolidation. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized and is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The level at which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal purposes, but shall not be larger than an operating segment determined in accordance with IFRS 8 Operating Segments. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

4. 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.

Significant areas requiring the use of estimates and assumptions relate to the review of asset carrying values and determination of impairment charges of non-current assets. Such estimates and assumptions impact decisions as to when exploration and evaluation costs should be capitalized or expensed and estimates for decommissioning liabilities. Other significant estimates include factors affecting the valuation of share-based payments, warrants, convertible debentures and the valuation of tax accounts. Actual results could differ from those estimates.

5. 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 January 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 consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

5. FUTURE ACCOUNTING CHANGES (Continued)

IFRS 9 *Financial Instruments* ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its consolidated 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 consolidated financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its consolidated financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening deficit at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its consolidated financial statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13") 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 consolidated financial statements.

6. CAPITAL MANAGEMENT

The capital structure of the Company as at September 30, 2011 and December 31, 2010 consists of equity attributable to common shareholders comprised of issued capital and equity reserves.

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.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

6. CAPITAL MANAGEMENT (Continued)

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 geological 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 significant changes in the Company's approach to capital management during the nine months ended September 30, 2011. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

7. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at September 30, 2011 and December 31, 2010 were as follows:

	Loans and receivable and other financial liabilities	Assets at fair value through profit or loss	Total
September 30, 2011	\$	\$	\$
Cash and cash equivalents	4,746,842	-	4,746,842
Amounts receivable	919,603	-	919,603
Marketable securities	-	607,380	607,380
Accounts payable and accrued liabilities	1,415,154	-	1,415,154
Liability component of convertible debenture	497,413	-	497,413
Long-term debt	226,714	-	226,714

	Loans and receivable and other financial liabilities	Assets at fair value through profit or loss	Total
December 31, 2010	\$	\$	\$
Cash	5,044,885	-	5,044,885
Amounts receivable	300,390	-	300,390
Marketable securities	-	1,168,400	1,168,400
Accounts payable and accrued liabilities	1,760,605	-	1,760,605
Liability component of convertible debenture	441,660	-	441,660
Long-term debt	224,576	-	224,576

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous period.

7. FINANCIAL INSTRUMENTS (Continued)**Fair Value**

IFRS requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities on the statements of financial position approximate fair values because of the limited term of these instruments. The carrying amounts for the debenture and long-term debt on the statements of financial position approximate fair values given the short amount of time passed since their inception.

IFRS 7 Financial Instruments: Disclosures requires classification of fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data.

At September 30, 2011 and December 31, 2010, the Company's financial instruments that are carried at fair value, consisting of marketable securities, have been classified as Level 1 within the fair value hierarchy.

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable from related and unrelated companies. In addition, the majority of the Company's cash and cash equivalents are held in accounts with Canadian banks. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to these financial instruments is remote.

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 \$4,746,842 (December 31, 2010 - \$5,044,885) to settle current liabilities of \$1,415,154 (December 31, 2010 - \$3,464,269). The Company's accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Market riskInterest rate risk

As at September 30, 2011, the Company has cash and cash equivalents balances, a debenture bearing interest at a fixed rate of 10% per annum and long-term debt bearing interest at a fixed rate of 1% per annum. 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. As at September 30, 2011, the Company had cash and cash equivalents of \$4,746,842. The Company considers interest rate risk to be minimal as investments are short term, the Company's interest bearing debt is at a fixed rate and it is intended that future financing will be primarily secured from equity placements and additional short-term, fixed rate loans. A 1% change in interest rates will result in a corresponding change in interest income of approximately \$36,000 over nine months based on the cash and cash equivalents at September 30, 2011.

7. FINANCIAL INSTRUMENTS (Continued)**Market risk (continued)**Foreign currency risk

The Company's functional currency is the Canadian dollar. The Company funds certain operating, exploration and administrative expenses in Brazil on a cash call basis using the local currency converted from its Canadian dollar bank accounts held in Canada. The Company has monetary assets and liabilities denominated in foreign currencies, and is therefore subject to exchange gains or losses resulting from changes in the exchange rate between the foreign currency and the Canadian dollar. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

Price risk

The Company will be exposed to price risk with respect to commodity prices, specifically gold, nickel and copper. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future operations will be significantly affected by changes in the market prices of these commodities. Prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for ore, the level of interest rates, the rate of inflation, investment decisions by large holders of ore and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors may in turn be influenced by changes in international investment patterns, monetary systems and political developments.

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

8. MARKETABLE SECURITIES

At January 1, 2010, the Company had earned a 100% interest in the Kabanga-Musongati mafic-ultramafic belt, northwest Tanzania, owned by Sagittarius Minerals Limited ("Sagittarius"), a Tanzanian company that held title to the nickel properties, by making a cash payment of \$100,000 to Tsar Emerald International AB. ("Tsar") and assuming the agreement that Tsar held with the owners of Sagittarius to acquire Sagittarius.

On June 10, 2010, the Company entered into an agreement (the "Agreement") with Kibaran Nickel Ltd. ("Kibaran") (formerly Innovance Ltd.) pursuant to which Kibaran acquired a 100% interest in this property. Kibaran is a publicly traded company on the Australian Securities Exchange. The sale was completed in October 2010.

Pursuant to the terms of the Agreement, the Company received the following consideration:

- 5,000,000 ordinary shares in Kibaran (to be held in escrow for 24 months from the date of closing);
- 7,500,000 A class performance shares in Kibaran, convertible into ordinary shares upon the drilling of 3 holes with a minimum 4 metres intersection grading at least 1% nickel within 3 years of being issued;
- 7,500,000 B class performance shares in Kibaran, convertible into ordinary shares upon the completion of an independent Joint Ore Reserves Committee ("JORC") compliant Mineral Resource Estimate of not less than 5,000,000 tonnes of nickel with a grade of not less than 1% nickel in situ or equivalent within 5 years of being issued; and
- 7,500,000 C class performance shares in Kibaran, convertible into ordinary shares upon the completion of an independent JORC compliant Mineral Resource Estimate of not less than 10,000,000 tonnes of nickel with a grade of not less than 1% nickel in situ or equivalent within 5 years of being issued.
- Cash of \$332,715 to pay historical liabilities related to the property.

The 5,000,000 ordinary shares were originally valued at \$1,206,300 based on the quoted market price on the date the shares were received. As at September 30, 2011, the shares were valued at \$607,380 (December 31, 2010 - \$1,168,400) based on the quoted market price of the shares on September 30, 2011. The performance shares are valued at \$Nil as the likelihood of their conversion into ordinary shares is indeterminable.

As part of the agreement, Kibaran has appointed two nominees of the Company to the Kibaran Board of Directors, Mr. David Gower and Mr. David Argyle, both of whom are currently directors of the Company.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

9. EXPLORATION AND EVALUATION PROPERTIES

September 30, 2011	Hope Brook Canada	Canadian Creek Canada	Pure Gold Canada	Paramirim Brazil	Mangabal Brazil	Achachucani Bolivia	Total
	\$	\$	\$	\$	\$	\$	\$
Acquisition costs							
Balance, December 31, 2010	44,000	-	31,865	2,150,853	784,973	-	3,011,691
Acquisition and property costs	51,000	192,459	-	-	-	-	243,459
Write down of properties	-	-	-	(2,150,853)	-	-	(2,150,853)
Balance, September 30, 2011	95,000	192,459	31,865	-	784,973	-	1,104,297
Exploration expenditures							
Balance, December 31, 2010	2,126,224	-	156,933	358,579	215,027	-	2,856,763
Mapping, surveying and assaying	418,392	134,233	-	-	-	-	552,625
Geology and geological consulting	427,855	188,117	-	-	-	-	615,972
Geophysics	561,872	56,121	-	-	-	-	617,993
Helicopter	194,499	351,792	-	-	-	-	546,291
Travel and transportation	122,432	13,065	-	-	-	-	135,497
Field and office support	1,271,583	794,319	-	158,223	42,906	182,365	2,449,396
Drilling	2,203,541	-	-	-	-	-	2,203,541
Equipment	285,547	-	-	-	-	-	285,547
Legal expense	11,366	-	-	-	-	-	11,366
Write down of properties	-	-	-	(516,802)	(42,906)	(182,365)	(742,073)
Balance, September 30, 2011	7,623,311	1,537,647	156,933	-	215,027	-	9,532,918
Balance, September 30, 2011	7,718,311	1,730,106	188,798	-	1,000,000	-	10,637,215

Hope Brook Gold Property, Canada

On January 25, 2010, the Company entered into an agreement to acquire a 100% interest in the Hope Brook Gold Project located on the southwest coast of Newfoundland. Pursuant to the agreement, the Company shall acquire a 100% interest in the property in consideration for an aggregate of cash payments in the amount of \$280,000 and common shares of the Company to the vendor of an aggregate of 500,000 over a four year period. The property will be subject to a 2% net smelter return royalty ("NSR"). The Company shall have the option at any time during the term of the agreement to purchase half of the NSR for \$1,000,000. The Company shall pay the vendors an advance royalty of \$20,000 per year commencing on January 22, 2014 until production is achieved. Advance royalty payments will be deducted from royalty payments due following commencement of production on the property. The cash payments and share issuances are to be made as follows:

- \$35,000 and 100,000 common shares on January 26, 2010 (paid and issued; valued at \$9,000 based on the quoted market price of the shares on the date of issuance);
- \$35,000 and 100,000 common shares on January 26, 2011 (paid and issued; valued at \$16,000 based on the quoted market price of the shares on the date of issuance);
- \$50,000 and 100,000 common shares on January 26, 2012;
- \$80,000 and 100,000 common shares on January 26, 2013; and
- \$80,000 and 100,000 common shares on January 26, 2014.

Pure Gold Property, Canada

The Company acquired this property through its acquisition of Tucano Exploration Inc. ("Tucano") during the year ended December 31, 2010. Tucano acquired by staking a 100% interest in 44 mineral claims in the Yukon. The property is known as the Pure Gold Property. The claims are subject to a 1% net smelter return royalty, which may be bought back at any time by the Company for \$250,000. A \$20,000 finders fee was paid in connection with this property.

Continued...

9. EXPLORATION AND EVALUATION PROPERTIES (Continued)**Paramirim Gold-Copper Project, Brazil**

The Paramirim Gold-Copper Project located in west-central Bahia state, Brazil, was acquired by the Company through its acquisition of Tucano. The Paramirim Project includes the Macaubas and Santa Maria concessions.

The Macaubas concessions were acquired by Tucano from Xstrata Brasil Exploração Mineral Ltda. ("Xstrata"). At any time to the date that is 90 days following the date on which the Company provides written notice to Xstrata that the Company has determined to proceed to a full feasibility study on the property, in the event that technical work demonstrates a deposit exists on the property that is at least 500,000 tonnes of copper of at least 1,000,000 ounces of gold equivalent, then Xstrata shall have the irrevocable first right and option to acquire from the Company a 60% interest in the property (the "Back-in Right"). To exercise the Back-in Right, Xstrata must (i) deliver a notice to the Company indicating its desire to exercise the Back-in Right and (ii) fund future expenditures in an amount equal to 300% of all expenditures funded by the Company on the property. Should Xstrata earn the 60% interest, a joint venture will be formed which will be funded in proportion to the Company's and Xstrata's interests.

The Santa Maria concessions are controlled by Mineração Santa Maria Ltda. ("MSML"). On March 10, 2008, Tucano entered into an agreement with MSML to acquire a 100% interest in mining claims located in the state of Bahia, Brazil. There is one remaining obligation in order to complete the acquisition. Should the Company decide to proceed with exploration work, a payment of US\$175,000 will be due within 60 days of giving written notice of this to MSML. As well, MSML will be entitled to a 1.9% NSR, of which the Company can purchase 0.9% for US\$1,300,000 leaving MSML with a NSR of 1%.

Mangabal Nickel Project, Brazil

In April 2005, the Company entered into an agreement with Falconbridge Brasil Ltda., now Xstrata, to earn a 50% interest in the Mangabal Nickel Project in Goiás State, Brazil.

On December 12, 2007, the agreement was superseded by the Mangabal Transfer Agreement whereby the Company can acquire a 100% interest in the Mangabal Nickel Project for the Brazilian Real equivalent of US\$7,000,000. Of this amount, US\$2,000,000 was paid by the Company in 2007.

On February 2, 2010, the Company and Xstrata agreed to a revision of the agreement, which provides Xstrata a 2% NSR in lieu of the remaining purchase price balance of US\$5,000,000 along with the relinquishment by the Company of 82 out of the 83 mineral claims that comprised this property. As a result, during 2009, the Company wrote down the carrying value of this property by \$1,000,000. In 2010, management determined that a further impairment existed and wrote the property down to \$1,000,000.

Canadian Creek, Canada

On October 12, 2010, the Company entered into an agreement with Alder Resources Ltd. ("Alder") to acquire a 60% interest in the Canadian Creek property located in the Whitehorse Mining District of the Yukon Territory. The Company will assume the agreement that Alder had with the optionors of the Canadian Creek property, Cariboo Rose Resources Ltd. ("Cariboo") by making the following cash payments and shares issuances:

- issue common shares with a value of \$100,000 by October 12, 2010 (issued valued at \$100,000 based on the quoted market price of the shares on the date the shares were due);
- make a cash payment of \$50,000 by April 21, 2011 (paid);
- issue common shares with a value of \$150,000 by October 12, 2011; (issued 1,083,836 shares of the Company subsequent to September 30, 2011);
- make a cash payment of \$75,000 by April 12, 2012;
- issue common shares with a value of \$250,000 by October 12, 2012
- make a cash payment of \$125,000 by April 12, 2013; and
- issue common shares with a value of \$500,000 by October 12, 2013.

9. EXPLORATION AND EVALUATION PROPERTIES (Continued)**Canadian Creek, Canada (Continued)**

The remaining obligations under Alder's agreement with Cariboo, assumed by the Company are as follows:

- make a cash payment of \$60,000, issue common shares with a value of \$15,000 and incur exploration costs of \$425,000 by June 18, 2012; and
- make a cash payment of \$100,000 and issue common shares with a value of \$30,000 and incur an additional \$1,000,000 in exploration costs by June 18, 2013.

Achachucani Gold Property, Bolivia

In September 2005, the Company entered into an agreement to acquire a 90% interest in the Achachucani Gold Property in Bolivia from Maximus Resources Ltd. ("Maximus").

Pursuant to the agreement with Maximus, the Company will acquire the rights and obligations that Maximus has under an agreement with Orvana Minerals Corp. ("Orvana") and an agreement with Empresa Minera Unificada S.A. ("EMUSA"). Orvana and EMUSA are the current indirect owners of 90% of the property and EMUSA is the current owner of the Bolivian company that is the operator of the project. To acquire a 90% interest in the property and the operations of the project, the Company is required to:

- issue 500,000 common shares (issued during 2005) and make a cash payment of \$100,000 to Maximus to assume the underlying agreements (paid);
- issue the equivalent of US\$50,000 in shares of the Company and make cash payments of US\$50,000 to both EMUSA and Orvana upon receipt of regulatory approval (issued and paid during 2005);
- issue the equivalent of US\$50,000 in shares of the Company and make cash payments of US\$50,000 to both EMUSA and Orvana within 90 days of the date of the agreement (issued and paid during 2006);
- issue 1,000,000 shares of the Company as well as issue the equivalent of US\$1,000,000 in shares of the Company to both EMUSA and Orvana within 12 months of the agreement;
- make cash payments of US\$1,400,000 to each of EMUSA and Orvana within 5 years of completion of a feasibility study on the property.

The Company is also required to incur expenditures aggregating US\$2,000,000 within five years in accordance with the following schedule:

- US\$200,000 during the first year of the agreement;
- US\$400,000 during the second year of the agreement;
- US\$600,000 during the third year of the agreement; and
- US\$800,000 by the fifth year of the agreement.

EMUSA and Orvana will retain an NSR of up to 1.5% on the property, with advance royalty payments of US\$200,000 to be made annually commencing on the second year anniversary of the agreement. The advance royalty may be applied towards a US\$2,000,000 buyout of the royalty that is held by EMUSA and Orvana.

In 2006, the Company declared force majeure on the Achachucani property. As a result, the issuance of 1,000,000 shares of the Company and the payment of US\$1,000,000 to each of EMUSA and Orvana have not been made, pending the resolution of the force majeure. As a result of the work stoppage and ongoing delay in the development of this property, the carrying value of the property has been written down to \$Nil.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited, expressed in Canadian Dollars)

10. LONG-TERM DEBT AND DEBENTURE

(i) On December 31, 2009, the Company issued a debenture in the principal amount of \$500,000 to Aberdeen International Inc. (“Aberdeen”). The terms of the debenture were amended in August 2010. The loan bears interest at 10% which is payable quarterly in cash. The debenture is secured against the Company’s interest in the Mangabal property in Brazil and will mature and be repayable on December 31, 2012. Accordingly, the principal portion of the loan has been classified as long-term on the consolidated statement of financial position as at September 30, 2011.

In connection with the issue of the debenture, the Company paid Aberdeen advisory fees in the amount of \$26,500, and issued to Aberdeen 500,000 share purchase warrants, entitling the holder to acquire one common share at a price of \$0.10 until September 30, 2011. Also, Aberdeen was issued one additional warrant for each dollar drawn on the debenture by the Company, for a total of 500,000 additional warrants. Each of these warrants is exercisable into one common share at a price of \$0.10 until September 30, 2011. The grant date fair value of the 1,000,000 warrants issued was estimated at \$52,000 using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 164%; risk-free interest rate of 2.16% and expected average life of 1.4 years. Interest accrued in the amount of \$37,957 (year ended December 31, 2010 - \$30,946) has been capitalized to exploration and evaluation properties in the consolidated statement of financial position during the nine months ended September 30, 2011.

The loan is convertible at the option of Aberdeen into units of the Company at a conversion price of \$0.06. Each unit being comprised of one common share and one half of one common share purchase warrant. Each whole warrant will be exercisable into one common share at a price of \$0.10 until December 31, 2012. The loan agreement remains subject to TSX Venture Exchange approval.

The loan is classified as a liability with the exception of the portion relating to the conversion option, resulting in the carrying value of the debenture being less than its face value. The discount is being accreted over the term of the debenture utilizing the effective interest rate method at a 17% discount rate. For the nine months ended September 30, 2011, accretion of the discount totaled \$55,753 (2010 - \$Nil).

(ii) In August 2010, the Company entered into an agreement to modify the payment terms of certain liabilities. The total amount due related to this agreement as at September 30, 2011 is R\$403,621 (\$226,714). This amount is payable in 50 equal monthly installments of R\$8,715 (\$5,386). Future payments are as follows:

Years ended December 31	Amount R\$	Amount \$
2011	28,895	16,230
2012	104,580	58,743
2013	104,580	58,743
2014	104,580	58,743
2015	60,986	34,255
	403,621	226,714

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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11. ISSUED CAPITAL

Authorized

Unlimited number of common shares with no par value.

Common shares issued

	Number of Shares	Value \$
Balance, December 31, 2010	240,991,199	60,123,657
Private placement, net of issuing costs	50,000,000	9,298,605
Value of broker warrants granted on private placement	-	(250,000)
Exercise of warrants	1,427,000	185,510
Exercise of options	50,000	8,000
Transfer of shares to be issued	1,243,643	100,773
Shares issued for exploration and evaluation properties	1,662,500	116,000
Balance, September 30, 2011	295,374,342	69,582,545

On March 23, 2011, the Company closed a bought deal private placement financing whereby 37,625,000 common shares of the Company were issued at \$0.20 per common share and 12,375,000 flow-through common shares were issued at \$0.20 per flow-through share, for aggregate gross proceeds of \$10,000,000. As there was no share premium associated with the flow-through shares issued, there was no increase in the flow-through share premium liability on the condensed interim consolidated statement of financial position as at September 30, 2011. In connection with the offering, the underwriters received an aggregate cash commission of \$500,000, and 2,500,000 broker warrants, each broker warrant entitling the holder thereof to purchase one common share of the Company for a period of 24 months at a price of \$0.20 per broker warrant. The fair value of the broker warrants was estimated at \$250,000 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 106%; risk-free interest rate of 1.68% and an expected life of two years.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited, expressed in Canadian Dollars)

12. EQUITY RESERVES

	No. of Options	Weighted Average Exercise Price	Value of Options	No. of warrants	Weighted Average Exercise Price	Value of Warrants	Total Value
	#	\$	\$	\$	\$	\$	\$
December 31, 2010	9,640,000	0.29	2,098,412	29,657,797	0.10	809,182	2,907,594
Granted	8,450,000	0.20	934,750	2,500,000	0.10	250,000	1,184,750
Exercised	(50,000)	(0.10)	(3,000)	(1,427,000)	(0.10)	(42,810)	(45,810)
Expired	(450,000)	(0.34)	(117,050)	(1,000,000)	-	(52,000)	(169,050)
September 30, 2011	17,590,000	0.29	2,913,112	29,730,797	0.10	964,372	3,877,484

The Company has an incentive stock option plan (the "Plan") whereby the Company can 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.

The Plan provides that it is solely within the discretion of the Board to determine who would receive stock options, the term to expiry of the options, and what amounts of options would be granted. 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 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 any 12-month period to employees or consultants undertaking investor relations activities exceeding 2% of the issued shares of the Company;
- The number of options granted in any 12-month period to insiders exceeding 10% of the outstanding shares of the Company;
- Any stock options remaining outstanding for a period greater than five years.

The Company applies the fair value method of accounting for share-based payment awards. 8,450,000 stock options were granted to directors, officers, and employees of the Company during the nine months ended September 30, 2011 (September 30, 2010 – 4,100,000). The fair value of the options granted was estimated at \$934,750 (September 30, 2010 - 246,000) on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0% (September 30, 2010 - 0%); expected volatility of 101% (September 30, 2010 – 108%); risk-free interest rate of 2.16% (September 30, 2010 – 1.35%) and an expected average life of five years (September 30, 2010 – 5 years).

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

12. EQUITY RESERVES (Continued)

The following share-based payment arrangements were in existence as at September 30, 2011:

STOCK OPTIONS:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Estimated fair value at grant date	Grant date share price	Expected volatility	Expected life	Expected dividend yield	Risk-free interest rate
#	#			\$	\$	\$	%	(Years)	%	%
25,000	25,000 *	November 1, 2006	November 1, 2011	0.26	5,000	0.25	110%	5	0	4.50%
1,000,000	1,000,000 *	November 3, 2006	November 3, 2011	0.27	200,000	0.25	110%	5	0	4.50%
760,000	760,000	February 2, 2007	February 2, 2012	0.62	340,480	0.60	98%	5	0	4.50%
500,000	500,000	February 14, 2007	February 14, 2012	0.57	227,000	0.60	98%	5	0	4.50%
100,000	100,000	April 9, 2007	April 9, 2012	0.90	88,100	0.90	197%	5	0	4.50%
230,000	230,000	July 1, 2007	July 1, 2012	0.62	134,550	0.60	108%	5	0	4.50%
150,000	150,000	September 1, 2007	September 1, 2012	0.45	53,700	0.45	108%	5	0	4.50%
150,000	150,000	September 4, 2007	September 4, 2012	0.45	60,450	0.50	108%	5	0	4.50%
100,000	100,000	November 13, 2007	November 13, 2012	0.45	35,400	0.45	105%	5	0	4.50%
230,000	230,000	November 19, 2007	November 19, 2012	0.50	80,270	0.50	105%	5	0	4.50%
25,000	25,000	January 11, 2008	January 11, 2013	0.45	8,750	0.45	105%	5	0	3.50%
995,000	995,000	February 1, 2008	February 1, 2013	0.47	388,050	0.50	105%	5	0	3.50%
25,000	25,000	February 9, 2008	February 9, 2013	0.50	9,750	0.50	105%	5	0	3.50%
100,000	100,000	February 12, 2008	February 12, 2013	0.48	35,000	0.45	105%	5	0	3.50%
25,000	25,000	March 1, 2008	March 1, 2013	0.67	12,750	0.65	106%	5	0	3.00%
100,000	100,000	June 2, 2008	June 2, 2013	0.46	36,000	0.50	88%	5	0	3.00%
200,000	200,000	October 29, 2008	October 29, 2013	0.15	5,612	0.05	108%	5	0	3.00%
4,025,000	4,025,000	August 16, 2010	August 16, 2015	0.10	241,500	0.08	108%	5	0	1.35%
400,000	400,000	September 13, 2010	September 13, 2015	0.10	16,000	0.07	85%	5	0	1.46%
7,925,000	7,925,000	May 16, 2011	May 16, 2016	0.20	871,750	0.14	102%	5	0	2.20%
525,000	525,000	June 27, 2011	June 27, 2016	0.20	63,000	0.17	99%	5	0	2.05%
<u>17,590,000</u>	<u>17,590,000</u>				<u>2,913,112</u>					

* These options expired subsequent to September 30, 2011

WARRANTS AND BROKER WARRANTS:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Estimated fair value at grant date	Grant date share price	Expected volatility	Expected life	Expected dividend yield	Risk-free interest rate
#	#			\$	\$	\$	%	(Years)	%	%
10,748,885	10,748,885	16-Jul-10	16-Jul-12	0.10	297,744	0.06	133%	2	0	1.60%
16,481,912	16,481,912	30-Dec-10	30-Dec-12	0.10	416,628	0.12	117%	2	0	1.17%
2,500,000	2,500,000	23-Mar-11	23-Mar-13	0.20	250,000	0.18	106%	2	0	1.68%
<u>29,730,797</u>	<u>29,730,797</u>				<u>964,372</u>					

13. LOSS PER SHARE

Total shares issuable from options, warrants and convertible debentures excluded from the computation of diluted loss per share because their effect would be anti-dilutive for the periods ended September 30, 2011 were 17,590,000 (September 30, 2010 - 9,265,000), 29,730,797 (September 30, 2010 - 10,748,885) and 8,333,333 (September 30, 2010 - 8,333,333) respectively.

Continued...

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

14. OTHER GAINS AND LOSSES

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Net foreign exchange gain	23,759	27,303	3,365	-
Unrealized loss on marketable securities	(430,785)	-	(564,385)	-
Write down exploration and evaluation properties	(197,676)	(271,093)	(2,892,936)	(334,378)
	(604,702)	(243,790)	(3,453,956)	(334,378)

15. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2011, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

	Purchases of goods and services			
	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
2227929 Ontario Inc.	36,638	46,173	117,935	76,449
Forbes & Manhattan, Inc.	15,000	15,000	45,000	45,000

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.

Pursuant to the bought deal private placement financing described in Note 12, Mr. Stan Bharti subscribed for 2,500,000 flow-through common shares and Aberdeen subscribed for 2,500,000 common shares for gross proceeds to the Company of \$500,000 each. Mr. Stan Bharti is a director of Aberdeen. Aberdeen has one additional director and an officer in common with the Company.

On December 31, 2009, the Company issued a 10% debenture in the principal amount of \$500,000 to Aberdeen (Note 10).

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

	Amounts owed by related parties		Amounts owed to related parties	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
	\$	\$	\$	\$
2227929 Ontario Inc.	43,307	-	-	27,911
Forbes & Manhattan, Inc.	-	-	8,050	33,900

The amounts outstanding are unsecured, non-interest bearing and have no fixed terms of repayment. 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.

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15. RELATED PARTY TRANSACTIONS (Continued)

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,		Nine months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short-term benefits	67,082	37,350	285,328	87,850
Share-based payments	-	132,000	709,000	132,000
	<u>67,082</u>	<u>169,350</u>	<u>994,328</u>	<u>219,850</u>

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.

16. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management and consulting contracts. Minimum commitments remaining under the agreements are approximately \$289,000 all payable within one year. These contracts also require that additional payments of up to \$402,000 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 condensed interim consolidated financial statements.

The Company entered into flow-through share subscription agreements during the year ended December 31, 2010, whereby it agreed to renounce to investors a total of \$4,554,280 of qualifying Canadian Exploration Expenses as described in the Income Tax Act of Canada, with an effective date of December 31, 2010. The Company is committed to incur the expenditures on or before December 31, 2011. The Company will be required to pay an interest penalty of approximately 1% per annum on the unspent amount between February 28, 2011 and December 31, 2011. At September 30, 2011, the Company had fulfilled its commitment of \$4,554,280.

In addition, the Company entered into flow-through share subscription agreements during the nine months ended September 30, 2011, whereby it agreed to renounce to investors a total of \$2,475,000 of qualifying Canadian Exploration Expenses as described in the Income Tax Act of Canada, with an effective date of December 31, 2011. The Company is committed to incur the expenditures on or before December 31, 2012. The Company will be required to pay an interest penalty of approximately 1% per annum on the unspent amount between February 28, 2012 and December 31, 2012. At September 30, 2011, the Company had fulfilled its commitment of \$2,475,000.

The Company's exploration and evaluation activities are subject to various federal, provincial and international 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.

17. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ending December 31, 2011 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 2011 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 January 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 December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive loss and cash flows for prior periods. The changes made to the condensed interim consolidated statements of financial position and condensed interim consolidated statements of loss and comprehensive loss have resulted in reclassifications of various amounts on the condensed interim consolidated statements of cash flows. The impacts on the condensed interim consolidated statements of cash flows are not significant. Please refer to the Company's March 31, 2011 condensed interim consolidated financial statements for reconciliations of the consolidated statements of financial positions as of January 1, 2010 and December 31, 2010 and the consolidated statement of loss and comprehensive loss for the year ended December 31, 2010.

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. Please refer to the Company's March 31, 2011 condensed interim consolidated financial statements for a complete description of the accounting policies used.

a) Equity reserves**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 record 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 deficit on expiry. The impact of this change was to decrease contributed surplus and decrease deficit by \$9,610,537 at December 31, 2010 (September 30, 2010 - \$9,610,537).

b) Flow through shares

Canadian GAAP - Flow through shares are a unique Canadian tax incentive, which is the subject of specific guidance under Canadian GAAP and US GAAP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

17. TRANSITION TO IFRS (Continued)**b) Flow through shares (Continued)**

IFRS – There is no equivalent IFRS guidance. SIC Interpretation 25, Income Taxes – Changes in the Tax Status of an Entity or its Shareholders, provides some additional guidance in that it requires that the current and deferred tax consequences of a change in tax status to be included in profit or loss for the period, unless those consequences relate to transactions and events that result in a direct credit to a recognized amount of equity. The portion of tax liabilities or assets related to the equity charge (which is not included in profit or loss) must be charged or credited directly to equity.

As at December 31, 2010, \$1,703,664 (September 30, 2010 - \$510,962) was recorded as a reduction to share capital and a corresponding amount was recorded as a flow-through share premium liability. The future tax asset of \$1,139,000 was removed as at December 31, 2010 with a corresponding increase to deficit. As at September 30, 2010 and December 31, 2010, \$34,453 was recorded as a reduction to share capital and a corresponding amount was recorded as a decrease to deficit with respect to flow-through share premiums.

c) Borrowing costs

Canadian GAAP – Borrowing costs were expensed as incurred.

IFRS – Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset.

As at December 31, 2010, \$131,448 (September 30, 2010 - \$57,470) was recorded as an increase to exploration and evaluation properties and a corresponding \$131,448 was credited to deficit (September 30, 2010 - \$57,470). There was no impact as a result of this change on the statement of financial position as at January 1, 2010. The impact of this change on the consolidated statement of loss and comprehensive loss for the three and nine months ended September 30, 2010 was a decrease to net loss and comprehensive loss of \$12,603 and \$57,470 respectively (for the year ended December 31, 2010, decrease of \$131,448).

d) Deferred tax from exploration and evaluation properties

Canadian GAAP - The Company has recognized deferred tax on temporary differences arising on acquisitions of assets where the carrying amount of the assets acquired exceeded the tax base.

IFRS – IFRS provides for a specific exemption from recording a deferred tax liability on initial recognition when the transaction is not a business combination and at the time of the transaction, affects neither accounting profit/loss nor tax profit/loss. As the acquisition of the exploration and evaluation properties in 2010 and in years prior meet the IFRS exemption criteria, the recognition of deferred tax liabilities in relation to these assets acquired under Canadian GAAP is reversed under IFRS.

On the consolidated statement of financial position, the future tax liability of \$282,000 was removed as at September 30, 2010 with a corresponding decrease to deficit. There was no impact as a result of this change on the statement of financial position as at December 31, 2010. On the consolidated statement of loss and comprehensive loss for the year ended December 31, 2010 the deferred tax recovery was reduced by \$282,000, and other gains and losses were reduced by \$92,000. The impact of this change on the consolidated statement of loss and comprehensive loss for the three and nine months ended September 30, 2010 was a decrease to net loss and comprehensive loss of \$Nil (for the year ended December 31, 2010, decrease of \$1,513,000).

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

17. TRANSITION TO IFRS (Continued)
Reconciliation of Condensed Interim Consolidated Statement of Financial Position as of September 30, 2010

	Note	Canadian GAAP Balance \$	IFRS Adjustments \$	IFRS Balance \$
ASSETS				
Current assets:				
Cash		1,137,730	-	1,137,730
Amounts receivable		133,997	-	133,997
Prepaid expenses		48,361	-	48,361
		<u>1,320,088</u>	<u>-</u>	<u>1,320,088</u>
Non-current assets:				
Equipment		114,545	-	114,545
Exploration and evaluation properties	c	7,096,529	57,470	7,153,999
		<u>8,531,162</u>	<u>57,470</u>	<u>8,588,632</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities		1,753,055	-	1,753,055
Interest-bearing loans		500,000	-	500,000
Flow-through share premium liability		-	510,962	510,962
		<u>2,253,055</u>	<u>510,962</u>	<u>2,764,017</u>
Long Term:				
Deferred tax liabilities	d	282,000	(282,000)	-
		<u>2,535,055</u>	<u>228,962</u>	<u>2,764,017</u>
SHAREHOLDERS' EQUITY				
Issued capital	b	57,320,184	(545,415)	56,774,769
Commitment to issue shares		45,000	-	45,000
Equity reserves	a	11,992,193	(9,610,537)	2,381,656
Deficit	a,b,c,d	(63,361,270)	9,984,460	(53,376,810)
		<u>5,996,107</u>	<u>(171,492)</u>	<u>5,824,615</u>
		<u>8,531,162</u>	<u>57,470</u>	<u>8,588,632</u>

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited, expressed in Canadian Dollars)

17. TRANSITION TO IFRS (Continued)
Reconciliation of Condensed Interim Consolidated Statement of Loss and Comprehensive Loss for the Nine Months Ended September 30, 2010

	Canadian GAAP Balance Note	IFRS Adjustments	IFRS Balance
	\$	\$	\$
Expenses			
Professional, consulting and management fees	340,832	-	340,832
Other general and administrative expenses	232,472	-	232,472
Share based payments	180,000	-	180,000
Other gains and losses	338,746	-	338,746
Finance costs	c 57,587	(57,470)	117
Net loss and comprehensive loss for the period	1,149,637	(57,470)	1,092,167

Loss per share

Basic and Diluted	0.01	-	0.01
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Weighted average number of shares outstanding:

Basic and Diluted	146,087,596	-	146,087,596
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Reconciliation of Condensed Interim Consolidated Statement of Loss and Comprehensive Loss for the Three Months Ended September 30, 2010

	Canadian GAAP Balance Note	IFRS Adjustments	IFRS Balance
	\$	\$	\$
Expenses			
Professional, consulting and management fees	129,272	-	129,272
Other general and administrative expenses	80,571	-	80,571
Share based payments	180,000	-	180,000
Other gains and losses	243,790	-	243,790
Finance costs	c 12,614	(12,603)	11
	-		
Net loss and comprehensive loss for the period	646,247	(12,603)	633,644

Loss per share

Basic and Diluted	0.00	-	0.00
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Weighted average number of shares outstanding:

Basic and Diluted	171,549,796	-	171,549,796
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18. SUBSEQUENT EVENT

Subsequent to September 30, 2011, The Company has granted a total of 1,100,000 stock options pursuant to certain officers, directors, consultants and employees of the Company. The options shall vest immediately, are exercisable at \$0.20 per option and expire on November 24, 2016.