TARANIS RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Taranis Resources Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Taranis Resources Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Taranis Resources Inc. to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 24, 2012

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT

	December 31, 2011	December 31, 2010 (Note 15)	January 1, 2010 (Note 15)
ASSETS			
Current			
Cash	$ 162,809	$ 173,514	$ 181,699
Receivables	59,346	66,559	22,080
Marketable securities (Note 5)	26,250	37,500	30,000
	248,405	277,573	233,779
Buildings and equipment (Note 6)	47,659	47,659	47,659
Exploration and evaluation assets (Note 7)	5,001,926	4,407,016	3,658,324
	$ 5,297,990	$ 4,732,248	$ 3,939,762
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	$ 310,713	$ 149,985	$ 262,268
Loan payable (Note 9)	100,000	-	-
Due to related parties	10,315	10,495	11,156
	421,028	160,480	273,424
Deferred taxes (Note 14)	243,000	285,509	342,247
	664,028	445,989	615,671
Shareholders' equity			
Capital stock (Note 10)	6,422,652	5,618,691	4,501,999
Subscription received in advance	30,000	-	-
Share-based payment reserve (Note 10)	949,418	949,418	687,418
Deficit	(2,768,108)	(2,281,850)	(1,865,326)
	4,633,962	4,286,259	3,324,091
	$ 5,297,990	$ 4,732,248	$ 3,939,762

Nature and continuance of operations (Note 1)
Subsequent event (Note 16)

Approved and authorized by the Board on April 24, 2012:

"John J. Gardiner" Director "George R. Kent" Director

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

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
YEAR ENDED DECEMBER 31

	2011	2010 (Note 15)
EXPENSES		
Consulting, travel and marketing	$ 63,889	$ 43,788
Licenses and fees	22,272	23,090
Office and miscellaneous	11,429	4,339
Professional fees	139,579	111,976
Property investigation	-	3,154
Share-based payments (Note 10)	-	242,800
Loss before other items and taxes	(237,169)	(429,147)
OTHER ITEMS		
Foreign exchange gain	403	1,078
Unrealized gain (loss) on marketable securities (Note 5)	(11,250)	7,500
Recovery of reclamation bond	10,174	-
Write-off of exploration and evaluation assets (Note 7)	(290,925)	(52,693)
	(291,598)	(44,115)
Loss before taxes	(528,767)	(473,262)
Deferred tax recovery (Note 14)	42,509	56,738
Loss and comprehensive loss for the year	$ (486,258)	$ (416,524)
Basic and diluted loss per common share	$ (0.02)	$ (0.02)
Weighted average number of common shares outstanding	29,496,959	25,046,969

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

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
YEAR ENDED DECEMBER 31

	2011	2010 (Note 15)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (486,258)	$ (416,524)
Items not affecting cash:		
Unrealized (gain) loss on marketable securities	11,250	(7,500)
Deferred tax recovery	(42,509)	(56,738)
Share-based payments	-	242,800
Write-off of exploration and evaluation assets	290,925	(52,693)
Unrealized foreign exchange	-	(661)
Changes in non-cash working capital items:		
(Increase) decrease in receivables	7,213	(44,479)
Increase in accounts payable and accrued liabilities	123,312	185,453
Net cash used in operating activities	(96,067)	(150,342)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation asset expenditures	(756,709)	(821,858)
Net cash used in investing activities	(756,709)	(821,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital stock issued	735,000	1,041,000
Share issuance costs	(22,749)	(76,985)
Subscription received in advance	30,000	-
Loan payable	100,000	-
Due to related parties	(180)	-
Net cash provided by financing activities	842,071	964,015
Decrease in cash during the year	(10,705)	(8,185)
Cash, beginning of year	173,514	181,699
Cash, end of year	$ 162,809	$ 173,514
Cash paid for interest	$ 1,660	$ -
Cash received for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 13)

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

TARANIS RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Capital Stock					
	Number of Shares	Amount	Subscription Received in Advance	Share-based Payment Reserve	Deficit	Total
Balance as at January 1, 2010 (Note 15)	20,707,875	$4,501,999	$ -	$ 687,418	$ (1,865,326)	$ 3,324,091
			-	-	-	
Loss for the year	-	-	-	-	(416,524)	(416,524)
Shares issued in settlement of debt	915,385	183,077	-	-	-	183,077
Private placement	5,000,000	1,000,000	-	-	-	1,000,000
Options exercised	200,000	64,400	-	(23,400)	-	41,000
Share issue costs	-	(88,185)	-	-	-	(88,185)
Share issue costs – options granted	-	(42,600)	-	42,600	-	-
Share-based payments – options granted	-	-	-	242,800	-	242,800
Balance as at December 31, 2010 (Note 15)	26,823,260	5,618,691	-	949,418	(2,281,850)	4,286,259
Loss for the year	-	-	-	-	(486,258)	(486,258)
Shares issued in settlement of debt	631,727	94,759	-	-	-	94,759
Private placement	3,675,000	735,000	-	-	-	735,000
Share issue costs	-	(25,798)	-	-	-	(25,798)
Subscription received in advance	-	-	30,000	-	-	30,000
Balance as at December 31, 2011	**31,129,987**	**$6,422,652**	**$ 30,000**	$ **949,418**	**$ (2,768,108)**	**$ 4,633,962**

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Taranis Resources Inc. (the "Company") is an exploration stage company incorporated in the Province of British Columbia. The registered office and records office of the Company are located at Suite 1710 – 1177 West Hastings Street, Vancouver BC. The Company together with its subsidiaries is in the process of acquiring and exploring its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable.

The Company continues to be dependent upon its ability to finance its operations and exploration programs through financing activities that may include issuances of additional debt or equity securities. The recoverability of the carrying value of exploration projects, and ultimately, the Company's ability to continue as a going concern, is dependent upon the existence and economic recovery of reserves, the ability to raise financing to complete the development of the properties, and upon future profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis, all of which are uncertain. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

While the Company has been successful in obtaining its required financing in the past, there is no assurance that such financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. BASIS OF PRESENTATION

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC). The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 14.

Critical accounting estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

2. BASIS OF PREPARATION (cont'd…)

Critical accounting estimates (cont'd...)

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i) The carrying value and the recoverability of exploration and evaluation assets, which are included in the consolidated statements of financial position. The cost model is utilized and the value of the exploration and evaluation assets is based on the expenditures incurred. At every reporting period, management assesses the potential impairment which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount.

ii) The inputs used in calculating the fair value for share-based payments expense included in profit or loss and stock-based share issuance costs included in shareholders' equity. The share-based payments expense is estimated using the Black-Scholes options-pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate.

iii) The inputs used in calculating the fair value of warrants included in units issued in private placements which are valued based on the difference between the trading value of the shares on the date of the issuance of the units and the proceeds realized on the units.

iv) The valuation of shares issued in non-cash transactions, including the settlement of debt. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.

v) The useful lives of buildings and equipment which is based on industry standards for the term of use of the buildings and equipment. Those items of buildings and equipment that are not being utilized in operations or for which there is an indefinite life are not amortized.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries Taranis Resources US Inc. and ENVI Joint Venture LLC, incorporated in the USA and Tailtiu Oy, a Finnish Corporation. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors indentified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the exchange rate at the reporting date, while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations in the period in which they arise.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for- sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd...)

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities: This category includes loans payable, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified its cash and marketable securities as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities, loan payable and due to related parties are classified as other financial liabilities.

Marketable securities

Marketable securities are classified as fair value through profit and loss and measured at fair market value.

Buildings and equipment

Buildings and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the declining balance method at an annual rate of 4% for buildings and 20% for equipment. Buildings and equipment that are withdrawn from use, or have no reasonable prospect of being recovered through use or sale, are regularly identified and written off. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditures relating to items of buildings and equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance.

Gains and losses on disposal of an item of buildings and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the asset and are recognized in the statement of operations and comprehensive income.

Exploration and evaluation - mineral properties

Pre-exploration costs are expensed as incurred. Costs related to the acquisition and exploration of mineral properties are capitalized by property until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation - mineral properties (cont'd...)

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the mineral property, the excess is recognized as income in the year received. The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Impairment

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

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

Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral properties and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period. The Company had no provisions for environmental rehabilitation as at December 31, 2011 and 2010, and January 1, 2010.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Loss per share

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

Share-based payments

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. A corresponding increase in share-based payment reserve is recorded when stock options are expensed. When stock options are exercised, capital stock is credited by the sum of the consideration paid and the related portion of share-based payments previously recorded in share-based payment reserve. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the Company does not recognize the deferred tax asset.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby the premium paid for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to other liabilities and included in income at the same time the qualifying expenditures are made.

4. NEW ACCOUNTING PRONOUNCEMENTS

Financial Instruments IFRS 9, "Financial Instruments" ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial instruments.

IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

4. NEW ACCOUNTING PRONOUNCEMENTS (cont'd...)

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

5. MARKETABLE SECURITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Excalibur Resources Ltd. ("Excalibur")	$ 26,250	$ 37,500	$ 30,000

During fiscal 2010, Excalibur consolidated its issued shares on an eight pre-consolidated shares for one post-consolidation share basis, resulting in the Company holding 250,000 post-consolidation common shares of Excalibur.

6. BUILDINGS AND EQUIPMENT

	Buildings	Equipment	Total
Balance, January 1, 2010, December 31, 2010 and 2011	$ 33,634	$ 18,895	$ 52,529
Accumulated depreciation			
Balance, January 1, 2010	$ 1,280	$ 3,590	$ 4,870
Depreciation for the years	-	-	-
Disposals	-	-	-
Balance, January 1, 2010, December 31, 2010 and 2011	$ 1,280	$ 3,590	$ 4,870
Carrying amounts			
As at January 1, 2010, December 31, 2010 and December 31, 2011	$ 32,354	$ 15,305	$ 47,659

During fiscal 2011 and 2010, the Company did not use the buildings and equipment and therefore did not record any depreciation.

7. EXPLORATION AND EVALUATION ASSETS

2011	Canada	Finland	December 31, 2011
Acquisition costs:			
Balance, beginning of year	$ 644,628	$ 154,090	$ 798,718
Additions	13,190	25,594	38,784
Disposals	-	(39,349)	(39,349)
Balance, end of year	657,818	140,335	798,153
Exploration costs:			
Balance, beginning of year	2,285,513	1,322,785	3,608,298
Assaying	3,091	132,203	135,294
Geological fees	-	54,714	54,714
Surveying	-	253,747	253,747
Drilling	-	406,697	406,697
	3,091	847,361	850,452
Exploration costs written off		(251,576)	(251,576)
Exploration costs recovered:	(3,401)	-	(3,401)
Balance, end of year	2,285,203	1,918,570	4,203,773
Total costs	$ 2,943,021	$ 2,058,905	$ 5,001,926

2010	United States	Canada	Finland	December 31, 2010
Acquisition costs:				
Balance, beginning of year	$ -	$ 623,420	$ 129,079	$ 752,499
Additions	27,629	23,247	25,011	75,887
Disposals	(27,629)	(2,039)	-	(29,668)
Balance, end of year	-	644,628	154,090	798,718
Exploration costs:	-			
Balance, beginning of year	-	2,297,236	608,589	2,905,825
Assaying	-	11,302	126,874	138,176
Geological fees	-	-	60,724	60,724
Surveying	-	-	26,013	26,013
Drilling	-	-	500,585	500,585
	-	11,302	714,196	725,498
Exploration costs written off	-	(23,025)	-	(23,025)
Balance, end of year	-	2,285,513	1,322,785	3,608,298
Total costs	$ -	$ 2,930,141	$ 1,476,875	$ 4,407,016

7. MINERAL PROPERTIES (cont'd…)

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyencing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Nevada Properties

WSM Claims

During fiscal 2010, the Company acquired by staking a 100% interest in 189 WSM claims located in White Pine County, Nevada. Due to significant changes in Nevada state mining law enacted subsequent to the acquisition, the Company relinquished its interest in these claims and wrote off the acquisition costs in 2010.

Finland Properties

Kettukuusikko Property

The Company has six mineral claims located in Finland known as the Kettukuusikko Gold Deposit. Any future commercial production from the property covered by this agreement is subject to a 2% Net Smelter Returns royalty ("NSR"). The claims are in good standing until February 2012 to November 2013, subject to renewal.

The Company entered into an agreement with Royal Gold, Inc. ("Royal Gold") pursuant to which Royal Gold funded exploration expenditures on the Kettukuusikko Gold Prospect sufficient to earn a 2% NSR on the prospect and copies of the exploration data.

Other Properties

The Company has certain other mineral claims located in the Republic of Finland.

The Company granted Royal Gold a 2% NSR on two claim groups (Marskinkuusikko 1 – 3 and Naakenavaara 1 - 4) acquired by the Company.

Royal Gold also has the option to acquire a 51% interest in any of these new properties in consideration for incurring 200% of the amounts expended by the Company on exploration activities and terminating the 2% NSR on the property. Royal Gold had the right to acquire an additional 24% of the property by funding a feasibility study and arranging financing to bring the property into commercial production. Royal Gold has terminated this option with respect to the Naakenavaara property.

British Columbia Properties

Thor Property

The Company acquired a 100% interest in certain mineral rights entitled the Thor Property located in the Revelstoke mining district of British Columbia, Canada.

During fiscal 2010, the Company acquired a 100% interest in 6 additional claims for the sum of $15,000.

7. MINERAL PROPERTIES (cont'd…)

British Columbia Properties (cont'd...)

Thor Property (cont'd...)

The Company has acquired additional contiguous mineral claims by staking.

Sullivan South Property

During fiscal 2009, the Company acquired by staking several mineral claims in the Cranbrook Mining District. After evaluation by the Company, title to these claims was relinquished in fiscal 2010.

8. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) Paid or accrued professional fees of $ 32,600 (2010 - $27,300) and share issue costs of $ 18,900 (2010 - $11,200) to a personal corporation controlled by a director.

b) Paid or accrued deferred exploration costs of $ 111,886 (2010 - $87,719) and project evaluation costs of $ nil (2010 - $14,008) to a company controlled by a director.

c) Paid or accrued consulting and other costs of $ 40,074 (2010 - $24,355) to companies controlled by directors.

d) Paid or accrued professional fees of $ 17,500 (2010 - $15,000) to a director.

e) Borrowed $100,000 from a company controlled by a director (Note 9). Interest of $1,250 has been accrued on this loan as at December 31, 2011.

Included in accounts payable and accrued liabilities is $70,231 (December 31, 2010 - $65,145; January 1, 2010 - $217,900) due to directors and companies controlled by directors of the Company. Amounts due to related parties are due to a director and companies controlled by directors of the Company and are non-interest bearing and have no specific terms of repayment.

Key management personnel include executive officers and directors of the Company. Compensation paid to key management personnel consists of share-based payments of $nil for the year ended December 31, 2011 (2010 - $242,800).

9. LOAN PAYABLE

The loan payable is due to a corporation controlled by a director of the Company (Note 8). It is unsecured, bears interest at a rate of 5% per annum and is repayable on demand or upon the Company completing one or more financings totalling at least $2,000,000. At the discretion of the lender, the loan and any unpaid interest thereon may be converted into common shares of the Company at the minimum price per share provided for under the rules and policies of the TSX Venture Exchange. Such conversion would be subject to approval by the TSX Venture Exchange.

10. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE

Authorized

Unlimited common class shares without par value.
Unlimited class A preferred shares with a par value of $1.

Private placements

During fiscal 2010, the Company issued 5,000,000 units at a price of $0.20 per unit for gross proceeds of $1,000,000. Each unit consisted of one common share and one share purchase warrant exercisable at $0.30 until April 15, 2012, subject to potential early expiry. The Company also issued finder's options entitling the holders to purchase up to 248,500 units at a price of $0.20 until April 15, 2012. Finder's options were valued at $42,600 using the Black-Scholes option pricing model, with a risk free rate of 0%, expected life of 2 years, annualized volatility of 172% and dividend rate of 0%. Each finder's unit has the same terms as the units issued pursuant to the private placement. The Company also paid finder's fees of $49,700 in respect of the private placement and $38,485 in other share issuance costs.

During fiscal 2011, the Company:

a) Issued 3,000,000 common shares at a price of $0.20 per share for gross proceeds of $600,000.
b) Issued 500,000 units at a price of $0.20 per unit for gross proceeds of $100,000. Each unit consisted of one common share and one-half (1/2) of a purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of $0.40 until September 26, 2012.
c) Issued 175,000 units at a price of $0.20 per unit for gross proceeds of $35,000. Each unit consisted of one common share and one-half (1/2) of a purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of $0.40 until October 20, 2012.

Settlement of debt

During fiscal 2010, the Company settled debts to various related parties of $183,077 (US$171,000) through the issuance of 915,385 common shares.

During fiscal 2011, the company settled debts to various related parties of $94,759 through the issuance of 631,727 common shares.

Stock options and warrants

The Company has a stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers, employees and certain consultants. The exercise price of each option is based on the market price of the Company's common stock at the date of grant, subject to a minimum price of $0.10. The options can be granted for a maximum term of 5 years and vest at the discretion of the Board of Directors.

10. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE (cont'd…)

Stock options and warrants (cont'd…)

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants			Stock Options (including Finders' Options)		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2009	4,208,433	$	0.55	1,851,271	$	0.40
Granted	5,000,000		0.30	1,548,500		0.24
Expired	(1,680,433)		1.00	(601,271)		0.53
Exercised	-			(200,000)		0.21
Outstanding, December 31, 2010	7,528,000		0.28	2,598,500		0.29
Granted	337,500		0.40	-		-
Expired/cancelled	(2,528,000)		0.25	(341,000)		0.23
Outstanding, December 31, 2011	5,337,500	$	0.31	2,257,500	$	0.29
Number currently exercisable	5,337,500	$	0.31	2,257,500	$	0.30

The following options and warrants to acquire common shares of the Company were outstanding at December 31, 2011:

	Number of Shares/Units	Exercise Price	Expiry Date
Options	409,000	$ 0.55	November 7, 2012
	500,000	0.20	October 15, 2013
	500,000	0.21	February 10, 2015
	600,000	0.30	December 31, 2015
Warrants	5,000,000	0.30	April 15, 2012 (1)
	250,000	0.40	September 26, 2012
	87,500	0.40	October 20, 2012
Finder's options	248,500	0.20	April 15, 2012 (2)

(1) Each warrant is exercisable at $0.30 into one common share until April 15, 2012 (subject to potential acceleration if the closing price of the Company's shares is $0.50 or greater for 20 consecutive trading days). Subsequent to December 31, 2011, these warrants expired unexercised.

(2) Each finder's option is exercisable at $0.20 into one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share at $0.30 until April 15, 2012. Subsequent to December 31, 2011, these finder's options expired unexercised.

10. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE (cont'd…)

Share-based payments

During fiscal 2011, the Company granted Nil (2010 – 1,300,000) options to directors. Accordingly, using the Black-Scholes option pricing model, the stock options are recorded at fair value in the statement of operations. Total share-based payments recognized in the statement of operations during fiscal 2011 was $Nil (2010 - $242,800) and the weighted average fair value per option granted was $Nil (2010 - $0.19). This amount was also recorded as share-based payments on the statement of financial position.

The following weighted average assumptions were used for the valuation of stock options:

	2011	2010
Risk-free interest rate	-	2.46%
Expected life of options	-	5 years
Annualized volatility	-	99.57%
Dividend rate	-	0%

11. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and exploration of mineral properties.

The Company's non-current assets are located in the following geographic locations:

	December 31, 2011	December 31, 2010
Finland	$ 2,058,905	$ 1,476,875
Canada	2,990,680	2,977,800
	$ 5,049,585	$ 4,454,675

12. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

12. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd…)

The fair value of the Company's receivables, loan payable and accounts payable and accrued liabilities approximate carrying value, which is the amount payable on the consolidated statement of financial position. The Company's other financial instruments, cash and marketable securities, under the fair value hierarchy are based on level 1 quoted prices in active markets for identical assets or liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to financial instruments included in these financial instruments included in receivables is remote, because these instruments are due primarily from government agencies and cash is held with reputable financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at December 31, 2011, the Company had a cash balance of $162,809 (December 31, 2010 – $173,514; January 1, 2010 - $181,699) to settle current liabilities of $421,028 (December 31, 2010 – $160,480; January 1, 2010 - $273,424). All of the Company's financial liabilities are subject to normal trade terms. Management is actively pursuing options to enable it to meet its current obligations as they become due.

Market risk

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

a) Interest rate risk

The Company has cash balances and a loan payable bearing interest at 5% per annum. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions when deemed appropriate. Management periodically monitors such investments and debts and makes adjustments as necessary but does not believe interest rate risk to be significant.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars or Euros. Management believes the risk is not currently significant as only a small portion of these assets and liabilities as at December 31, 2011 and 2010, and January 1, 2010 are denominated in United States Dollars or Euros.

12. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd…)

Market risk (cont'd…)

c) Price risk

The Company is not a producing entity so is not directly exposed to fluctuations in commodity prices. The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue acquisition, exploration and development of mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its cash, marketable securities and capital stock.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the year ended December 31, 2011 included:

a) Accruing mineral property expenditures of $205,044 and $14,249 in share issuance costs through accounts payable and accrued liabilities as at December 31, 2011.

b) Settlement of accounts payable and accrued liabilities of $94,759 through the issuance of 631,727 common shares.

Significant non-cash transactions during the year ended December 31, 2010 included:

a) Accruing mineral property expenditures of $75,919 through accounts payable and accrued liabilities as at December 31, 2010.

b) Settlement of accounts payable and accrued liabilities of $183,077 through the issuance of 915,385 common shares.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

c) Incurring share issuance costs valued at $42,600 through the issuance of 248,500 finders'options pursuant to a private placement.

d) Accruing share issuance costs of $11,200 through accounts payable and accrued liabilities as at December 31, 2010.

14. INCOME TAXES

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

	2011	2010
Loss before taxes	$ (528,767)	$ (473,262)
Expected income tax recovery	$ (140,000)	$ (139,118)
Non-deductible expenditures	44,000	152,896
Change in tax rates, foreign exchange and other items	87,000	(463,516)
Change in unrecognized deductible temporary differences	(33,509)	393,000
Net tax recovery	$ (42,509)	$ (56,738)

b) Significant components of the Company's deferred tax assets and liabilities are as follows:

	2011	2010
Deferred tax assets (liabilities)		
Exploration and evaluation assets	$ (1,054,000)	$ (812,131)
Losses available for future periods	786,000	476,594
Other items	25,000	50,028
Net deferred tax liability	$ (243,000)	$ (285,509)

The Company has non-capital losses carried forward for income tax purposes in the USA, Canada and Finland of approximately $5,087,000 which can be applied against future years' taxable income. These losses will expire through to 2031.

c) Significant components of the Company's temporary differences and unused tax losses are as follows:

	2011	Expiry date	2010
Losses available for future periods	$ 1,900,000	2015 to 2021	$ 1,992,000
Exploration and evaluation assets	452,000	Not applicable	152,000
Marketable securities	74,000	Not applicable	-

15. FIRST TIME ADOPTION OF IFRS

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

In preparing the opening IFRS statement of financial position and the financial statements for the year ended December 31, 2011, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS.

The Company has elected to take the following exemptions under IFRS 1:

Share-based payment transactions

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and vested before the Transition Date. As a result of applying this exemption, the Company will apply the provision of IFRS 2 only to all outstanding instruments that are unvested as at the Transition Date to IFRS. The Company did not have any unvested equity instruments as of the Transition Date.

Estimates

The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

The reconciliation between GAAP and IFRS equity as at January 1, 2010 (date of transition to IFRS) and December 31, 2010 is provided below:

	January 1, 2010	December 31, 2010
Equity under Canadian GAAP	$3,324,091	$4,286,259
Adjustments	-	-
Total IFRS adjustment to equity	-	-
Equity under IFRS	$3,324,091	$4,286,259

15. FIRST TIME ADOPTION OF IFRS (cont'd…)

The reconciliation between the Canadian GAAP and IFRS total comprehensive income for the year ended December 31, 2010 is provided below:

	Year ended December 31 2010
Comprehensive income under Canadian GAAP	$(416,524)
Adjustments	-
Total IFRS adjustment to comprehensive income	-
Comprehensive income under IFRS	$(416,524)

There are no significant differences between IFRS and Canadian GAAP in connection with the Company's statements of cash flows for the years ended December 31, 2011 and 2010.

a) Flow through shares

Canadian GAAP has specific guidance for the treatment of flow-through shares, which are an equity instrument unique to Canada and therefore, there is no specific equivalent guidance under IFRS. Under the IFRS framework, the shares can be seen as a compound instrument, consisting of a share and a tax benefit and when the shares are issued the premium paid for the tax benefit in excess of the market value of the shares on a standalone basis is credited to flow-through liabilities. When the qualifying expenditures are made, the obligation of the Company to pass the tax benefit to the shareholder has been discharged, and accordingly, the liability is taken into income at that point in time as a deferred income tax recovery.

As a result of this change in policy, a flow through liability and deferred tax recovery of $153,347 relating to the financial years ended December 31, 2007 and 2008 was recognized and reallocated from capital stock to deficit effective January 1, 2010.

16. SUBSEQUENT EVENT

Subsequent to December 31, 2011, the Company issued 3,456,668 units at a price of $0.15 per unit for gross proceeds of $518,500, of which $30,000 was received as at December 31, 2011. Each unit consisted of one common share and one share purchase warrant, each warrant entitling the holder to purchase one additional common share at a price of $0.25 until February 21, 2014.