AMERICAN VANADIUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

AS AT AND FOR THE SIX MONTHS ENDED AUGUST 31, 2011

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
IN CANADIAN DOLLARS (UNAUDITED)

	August 31	February 28	March 1
	2011	2011	2010
	$	$	$
ASSETS			
Current assets			
Cash	**6,825,971**	1,953,402	1,076,988
Amounts receivable	**93,920**	38,972	9,764
Income tax receivable	**166,498**	165,138	-
Prepaid expenses	**93,974**	88,140	367
Deferred financing costs	**-**	117,845	-
Short-term investments (Note 5)	**-**	-	3,000,000
	7,180,363	2,363,497	4,087,119
Equipment (Note 6)	**51,060**	14,727	18,100
Reclamation deposit	**72,809**	52,154	43,893
Mineral properties (Note 7)	**1,197,318**	958,127	696,833
	8,501,550	3,388,505	4,845,945
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	**470,375**	871,644	71,981
Income tax payable	**-**	-	499,938
	470,375	871,644	571,919
Shareholders' equity			
Share capital (Note 8)	**13,947,823**	6,349,922	5,343,455
Contributed surplus	**2,110,994**	964,670	718,018
Deficit	**(8,027,642)**	(4,797,731)	(1,787,447)
	8,031,175	2,516,861	4,274,026
	8,501,550	3,388,505	4,845,945

Basis of presentation and continuance of operations (Note 2)

Events after the reporting period (Note 14)

On behalf of the Board:

Signed: "William Radvak" Director *Signed: "Brian E. Bayley"* Director

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

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
IN CANADIAN DOLLARS (UNAUDITED)

	For the three months ended August 31		For the six months ended August 31	
	2011	2010	**2011**	2010
	$	$	**$**	$
Exploration expenses (Note 7)	**726,009**	518,620	**1,830,223**	605,972
General and administrative expenses:				
Stock-based compensation (Note 8)	**162,962**	40,973	**552,914**	71,264
Investor relations and shareholder information	**145,341**	53,647	**329,817**	75,786
Salaries and benefits	**80,422**	40,797	**182,624**	72,876
Office and sundry	**58,118**	7,931	**72,166**	18,533
Office facilities and administrative services (Note 9)	**43,000**	25,693	**85,476**	49,904
Consulting (Note 9)	**33,000**	2,796	**65,400**	3,316
Business development	**24,743**	-	**24,743**	-
Audit and legal	**20,240**	13,461	**25,988**	27,719
Transfer agent, listing and filing fees	**13,655**	8,241	**33,404**	10,117
Travel	**10,725**	31,737	**43,766**	40,072
Amortization	**4,217**	1,655	**8,186**	3,281
	596,423	226,931	**1,424,484**	372,868
Loss before other items	**(1,322,432)**	(745,551)	**(3,254,707)**	(978,840)
Other items:				
Foreign exchange gain	**17,573**	40,271	**14,706**	42,468
Interest income	**7,193**	1,288	**10,090**	1,295
(Loss) gain on short-term investments (Note 5)	**-**	(131,991)	**-**	888,009
Net comprehensive loss	**(1,297,666)**	(835,983)	**(3,229,911)**	(47,068)
Basic and diluted loss per share (Note 13)	**(0.05)**	(0.05)	**(0.14)**	0.00

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
IN CANADIAN DOLLARS (UNAUDITED)

	Share Capital	Contributed Surplus	Deficit	Total
	$	$	$	$
Balance, March 1, 2010	5,343,455	718,018	(1,787,447)	4,274,026
Exercise of warrants	94,541	-	-	94,541
Stock-based compensation	-	71,264	-	71,264
Net comprehensive loss for the period	-	-	(47,068)	(47,068)
Balance, August 31, 2010	5,437,996	789,282	(1,834,515)	4,392,763
Exercise of warrants	707,601	-	-	707,601
Exercise of stock options	204,325	(87,075)	-	117,250
Stock-based compensation	-	262,463	-	262,463
Net comprehensive loss for the period	-	-	(2,963,216)	(2,963,216)
Balance, February 28, 2011	6,349,922	964,670	(4,797,731)	2,516,861
Private placements, net of share issuance costs	6,921,767	651,526	-	7,573,293
Exercise of warrants	466,666	-	-	466,666
Exercise of stock options	141,968	(58,116)	-	83,852
Shares issued for water rights (Note 7)	67,500	-	-	67,500
Stock-based compensation	-	552,914	-	552,914
Net comprehensive loss for the period	-	-	(3,229,911)	(3,229,911)
Balance, August 31, 2011	**13,947,823**	**2,110,994**	**(8,027,642)**	**8,031,175**

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

IN CANADIAN DOLLARS (UNAUDITED)

	For the six months ended August 31 2011	2010
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net comprehensive loss	**(3,229,911)**	(47,068)
Items not involving cash:		
Stock-based compensation	**552,914**	71,264
Unrealized foreign exchange gain	**(13,607)**	-
Amortization	**8,186**	3,281
Gain on short-term investments	**-**	(888,009)
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	**(404,069)**	165,894
Amounts receivable	**(54,948)**	(8,010)
Prepaid expenses	**(5,735)**	(25,801)
Current income tax receivable	**-**	(497,989)
Non-operating (income) expenses:		
Interest income	**(10,090)**	(1,295)
Net cash used in operating activities	**(3,157,260)**	(1,227,733)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property acquisition costs	**(171,691)**	(112,875)
Purchase of equipment	**(41,719)**	-
Increase in reclamation deposit	**(20,655)**	(6,248)
Interest income	**10,090**	1,295
Proceeds from sale of short-term investments	**-**	3,888,009
Net cash (used in) provided by investing activities	**(223,975)**	3,770,181
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	**8,246,669**	94,541
Net cash provided by financing activities	**8,246,669**	94,541
Effect of exchange rate changes on cash	**7,135**	-
Change in cash for the period	**4,872,569**	2,636,989
Cash, beginning of period	**1,953,402**	1,076,988
Cash, end of period	**6,825,971**	3,713,977

Supplemental Cash Flow Information

Non-cash investing activities

During the six months ended August 31, 2011, the Company acquired water rights through the issuance of 50,000 of its common shares, valued at $67,500. This amount has been recorded in mineral properties as an acquisition cost.

Non-cash financing activities

During the six months ended August 31, 2011, the Company issued 217,858 share purchase warrants valued at $117,900 for agent's and finder's fees related to various private placements of common shares. This amount has been recorded as a transaction cost, reducing the value of shareholders' equity.

1. NATURE OF OPERATIONS

American Vanadium Corp. (the "Company") (formerly Rocky Mountain Resources Corp.), incorporated under the *Canada Business Corporations Act*, is engaged in the acquisition and exploration of mineral properties, with a strategic focus on vanadium properties in the State of Nevada. The Company is currently exploring its Gibellini property and has completed a positive feasibility study on the property. Pending, among other factors, successful supply arrangements, the availability of sufficient financing, regulatory approval, all of which are uncertain, the Company plans to develop and/or operate a mine in the future.

To reflect its focus on vanadium properties, the Company's name was changed from Rocky Mountain Resources Corp. to American Vanadium Corp. in January 2011. The address of the Company's principal place of business is Suite #1028, 550 Burrard Street, Vancouver, British Columbia.

2. BASIS OF PREPARATION AND CONTINUANCE OF OPERATIONS

Statement of compliance

The Company's first annual audited consolidated financial statements to be issued under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), will be for the year ended February 29, 2012. In conjunction with those financial statements, the condensed consolidated interim financial statements as at and for the six months ended August 31, 2011 have been prepared in accordance with International Financial Reporting Standard 1, "First time Adoption of International Financial Reporting Standards" and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the IASB. The recognition and measurement of certain balances and transactions, as well as certain disclosures in these financial statements may differ from the financial statements previously reported under Canadian generally accepted accounting principles ("Canadian GAAP").

These condensed consolidated interim financial statements are prepared using IFRSs in effect as at March 1, 2010. Significant accounting policies and the applicable basis of measurement used in the preparation of these financial statements are described in Note 3. However, as new IFRS pronouncements and interpretations are issued by the IASB, the actual accounting standards and policies adopted as at February 29, 2012 may differ from those used herein.

These condensed consolidated interim financial statements are presented in Canadian dollars, which is also the functional currency of the Company and American Vanadium US Inc., a wholly-owned subsidiary of the Company.

These condensed consolidated interim financial statements were authorized by the Board of Directors on October 27, 2011.

Going concern

These condensed consolidated interim financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its inception, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to develop profitable operations or continue to raise additional funds, in which case the Company may be unable to meet its financial obligations. Should the Company be unable to generate funds from its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company's ability to raise additional funds is dependent on favourable conditions in equity and alternative investment markets, which are volatile and subject to significant uncertainty. The Company will continue to identify alternative sources of financing, but anticipates reliance on equity markets in the near term.

As at August 31, 2011, the Company maintained a working capital surplus of $6,709,988 and had $8,031,175 in shareholders equity.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are those policies which the Company has adopted for its consolidated financial statements for the year ended February 29, 2012. These policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS consolidated statement of financial position as at March 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

Basis of consolidation

These condensed consolidated interim financial statements include the assets, liabilities, income and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars.

Basis of measurement

The balances in these condensed consolidated interim financial statements have been measured on an historical cost basis, except for short-term investments which are measured at fair value.

Foreign currency translation

The functional currency, the primary currency in which an entity operates, is determined for the Company and its consolidated subsidiary, American Vanadium US Inc. Balances and transactions that are currencies other than an entity's functional currency are translated as follows:

- Revenue and expense items are translated at the foreign exchange rates prevailing on the dates they occur.
- Non-monetary assets and liabilities are translated at historical foreign exchange rates, unless such items are carried at market value, in which case they are translated at the exchange rate in effect on the balance sheet date.
- Monetary assets and liabilities are translated at the foreign exchange rate in effect at the balance sheet date.

Gains and losses arising from changes to the exchange rates used to translate foreign-denominated balances and transactions into the functional currency are recorded as a component of net (loss) income in the period in which they occur.

The functional currency of the Company and American Vanadium US Inc. is the Canadian dollar, which is also the presentation currency of these condensed consolidated interim financial statements.

Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss,” “loans and receivables,” “available-for-sale,” “held-to-maturity,” or “financial liabilities measured at amortized cost” as follows:

i) Financial assets

Financial assets comprise cash, amounts receivable, short-term investments and reclamation deposits. Cash comprises liquid balances held at large Canadian and U.S. banks and is measured at fair value through profit and loss. Amounts receivable and income tax receivable are classified as loans and receivables and are recorded at amortized cost less any impairment. Short-term investments include equity holdings in other companies and are measured at fair value through profit and loss. Reclamation deposits are designated for various operational or environmental reclamation purposes and are classified as held-to-maturity.

ii) Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities. These are classified as financial liabilities measured at amortized cost using the effective interest rate method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest expense.

Assets and liabilities measured at fair value are further categorized in a fair value hierarchy based on the inputs used to determine their fair value. 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.

See Note 11 for fair value hierarchy classifications.

Reclamation deposits

Regardless of whether an actual liability for the reclamation of mineral properties exists, the Company classifies amounts deposited with environmental agencies or amounts held as security for potential reclamation liabilities separately from cash.

Equipment

Equipment is recorded at cost less accumulated amortization. Cost includes the purchase price of the equipment and the directly related costs to transport or prepare the equipment for its intended use. Amortization is provided on a straight-line basis over three to five years, which represents the estimated useful lives of the assets.

Mineral properties

The Company's accounting policy for mineral property costs is dependent on the stage of the properties to which the costs relate. All capitalized costs are attributed to the individual mineral properties to which they relate, known as cash generating units ("CGUs").

Acquisition costs

All costs incurred to acquire or maintain mineral property rights are capitalized to the relevant CGU. These costs are not depleted until the CGU reaches production.

Exploration and evaluation costs

Costs related to the exploration and evaluation of properties for which no technically or economically feasible reserves have been identified are recorded as an expense in the period incurred. The Company determines that technical and economic feasibility exists when:

- a feasibility study, prepared in accordance with professional geological standards, defines a proven mineral reserve body;
- the Company intends to recover the mineral reserves through mining activity or sale of mineral rights; and
- the Company has sufficient financing available to develop a mine.

Development costs

When technical and economic feasibility exists for a certain CGU, all costs incurred to further prepare and develop a mine, or to ready the reserve rights for sale, are capitalized. Such costs may include interest on debt financing required to construct a mine or general and overhead expenses that are directly attributable to the CGU. These capitalized costs are not subject to depletion until such time as the mine is ready for production or the mineral rights are saleable, at which point they are depleted on a unit-of-production basis over the estimated recoverable reserves of each CGU.

Post-development costs

After a mine is ready for production or mineral reserves are saleable, all costs, including interest on related debt and general and administrative costs are expensed in the period incurred unless they relate to an extension of mineral reserves or a significant improvement in mining operations. In these instances, the expenditures related to the betterment are capitalized and are depleted on a unit-of-production basis over the remaining recoverable reserves.

Impairment of mineral properties and equipment

The carrying amounts of equipment and mineral properties, regardless of the development stage, are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. An impairment loss exists if the asset's carrying amount exceeds the recoverable amount and is recorded as an expense when identified. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the CGU to which the asset belongs is determined.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. 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 for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mineral properties, fair value less cost to sell is often estimated using a discounted cash flow approach as fair values from active markets or binding sale agreements are not readily available. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate.

Impairments on equipment and mineral properties may be subsequently reversed in subsequent periods. When a reversal of impairment is recorded, the carrying value of the asset is increased to its recoverable amount which cannot exceed the carrying amount of the asset that would have existed had no impairment been recognized in prior periods. Any reversal of impairment is recognized as a component of net (loss) income when identified.

Deferred financing costs

Expenditures directly related to share issuances are recorded as a deferred financing cost until such time as the shares are issued. When shares are issued, the deferred financing cost is recognized as a reduction of the net proceeds from the share issuance. If no shares are issued, these deferred financing costs are recognized as a component of comprehensive loss.

Current and deferred income taxes

Current taxes receivable or payable are estimated on taxable income for the current year at the statutory tax rates enacted or substantively enacted on the balance sheet date.

Deferred tax assets and liabilities are recognized based on the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits of the relevant entity or group of entities, in a particular jurisdiction, will be available against which the assets can be utilized.

Reclamation provision

The Company recognizes a provision for environmental reclamation of its mineral properties in the period in which the Company becomes legally or constructively liable for future reclamation expenditures. The reclamation provision is initially measured as the present value of future expected reclamation cash flows, discounted using the risk-free interest rate prevailing at the time the liability is incurred, and a corresponding amount is recorded in the carrying value of the related mineral property.

Subsequent to initial measurement, the provision is re-measured using the risk-free interest rate prevailing on each reporting date. Changes to the carrying value of the provision for changes to the discount rate, or for changes to the timing and amount of expected future reclamation cash flows are recorded as an adjustment to the carrying value of the related mineral property. Changes to the carrying value of the provision from the accretion of its discounted value are recorded as a financing expense.

Stock-based compensation

The Company recognizes a stock-based compensation charge in operations for stock options granted to employees, officers and directors of the Company. The stock-based compensation charge is based on the fair value of option awards granted, measured using the Black-Scholes option pricing model at the date of issue. The fair value of stock options granted is amortized to expense on a graded basis over the vesting periods of the option granted with an off-setting amount recorded in contributed surplus. Any expense recorded for options that are forfeited because non-market vesting conditions are not satisfied is reversed in the period in which forfeiture occurs.

Warrants

Warrants issued by the Company typically accompany an issuance of shares in the Company, and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company. The fair value of the warrants is measured as the incremental difference between the value of the combined share and warrant unit and the fair value of stand-alone shares; the fair value attributed to warrants is recorded as a component of contributed surplus. When warrants are exercised, the fair value of the exercised warrants is reclassified to capital stock.

(Loss) earnings per share

Basic (loss) earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share, which reflects the dilutive effect of options, warrants and other convertible instruments, is calculated using the treasury stock method. Under this method, the dilutive effect on earnings per share reflects the assumption that the proceeds from the exercise of options, warrants and other convertible instruments are used to purchase and cancel common shares at the average market price during the period. In periods that the Company reports a net loss, loss per share is not presented on a diluted basis, as the result would be anti-dilutive.

Judgments, estimates and measurement uncertainty

The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

i. Mineral properties

The measurement, depletion and impairment of mineral properties are based on various judgments and estimates. These include the technical and commercial feasibility of these properties, which incorporates various assumptions for mineral reserves, future mineral prices, and operating and capital expenditures for the properties.

The Company has engaged a recognized engineering firm to conduct its feasibility study for the Gibellini property, but differences between actual reserves, mineral pricing and costs could adversely affect the feasibility or carrying value of this property.

ii. Reclamation provision

The Company records a reclamation provision for the discounted present value of expected future expenditures, if any, required to environmentally reclaim its mineral properties. The measurement of this provision, if one exists, is based on estimates for the amounts and timing of future cash flows. Differences between actual cash flows and those estimated could result in the reclamation provision being over or understated.

ii. Taxation

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matter that may not have been reported to or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable by the Company.

Deferred tax assets are recognized to the extent that certain taxable losses or deferred expenditures will be utilized by the Company to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Company will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Company's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

iii. Stock-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and share purchase warrants granted. This model requires management to estimate the volatility of the Company's future share price, expected lives of stock options and future dividend yields. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

Future changes in accounting standards

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on its financial statements:

i. IAS 12 Income Taxes ("IAS 12")

IAS 12 was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012. The Company is currently evaluating the impact of this amendment to IAS 12 on its consolidated financial statements.

ii. IFRS 7 Financial Instruments: Disclosures ("IFRS 7")

IFRS 7 was amended in October 2010 to provide additional disclosure on the transfer of financial assets including the possible effects of any residual risks that the transferring entity retains. These amendments are effective as of July 1, 2011. The Company is currently evaluating the impact of these amendments to IFRS 7 on its consolidated financial statements, but the impact, if any, is not expected to be significant.

iii. IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and is the first step to replace current IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, although the IASB is considering an extension to January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements, but the impact, if any, is not expected to be significant.

iv. IFRS 10 Consolidated Financial Statements ("IFRS 10")

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation—Special Purpose Entities" and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

v. IFRS 13 Fair Value Measurements ("IFRS 13")

IFRS 13 defines fair value and sets out a single IFRS framework for fair value measurements and disclosures. IFRS 13 applies to other IFRSs that require or permit measurements or disclosures based on fair values, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

4. FIRST-TIME ADOPTION OF IFRS

These are the Company's first condensed consolidated interim financial statements for its second quarter that have been prepared in accordance with IFRS. IFRS 1 requires the presentation of comparative information as at March 1, 2010 (the "transition date") and subsequent comparative periods under IFRS, as well as the consistent and retrospective application of IFRS accounting policies, although this standard provides mandatory exceptions and optional exemptions to the retrospective application of IFRS for certain areas. Additionally, IFRS 1 requires the Company to reconcile certain balances previously reported under Canadian GAAP to their IFRS balances reported herein.

IFRS 1 mandatory exceptions and optional exemptions

i. Stock-based compensation

In accordance with IFRS 1, the Company has elected to apply the requirements of IFRS 2, Share-based payment, only to unvested stock options outstanding as at March 1, 2010.

ii. Estimates

Where the application of IFRS has required management to make estimates that were not previously required under Canadian GAAP, such estimates were made based on information available as at the dates to which the estimates relate, and do not incorporate the benefit of hindsight.

Reconciliations from Canadian GAAP to IFRS

Consolidated balance sheet as at March 1, 2010 (IFRS transition date)

	Canadian GAAP	Adjustment Reference	Adjustment	**IFRS**
	$		$	**$**
ASSETS				
Current assets				
Cash	**1,076,988**		-	**1,076,988**
Amounts receivable	**9,764**		-	**9,764**
Prepaid expenses	**367**		-	**367**
Short-term investments	**3,000,000**		-	**3,000,000**
	4,087,119		-	**4,087,119**
Equipment	**18,100**		-	**18,100**
Reclamation deposit	**43,893**		-	**43,893**
Mineral properties	**696,833**		-	**696,833**
	4,845,945		-	**4,845,945**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	**71,981**		-	**71,981**
Income tax payable	**499,938**		-	**499,938**
	571,919		-	**571,919**
Shareholders' equity				
Share capital	**5,343,455**		-	**5,343,455**
Contributed surplus	**699,571**	i.	18,447	**718,018**
Deficit	**(1,769,000)**	i.	(18,447)	**(1,787,447)**
	4,274,026		-	**4,274,026**
	4,845,945		-	**4,845,945**

Consolidated balance sheet as at August 31, 2010

	Canadian GAAP	Adjustment Reference	Adjustment	**IFRS**
	$		$	**$**
ASSETS				
Current assets				
Cash	**3,713,977**		-	**3,713,977**
Amounts receivable	**17,774**		-	**17,774**
Prepaid expenses	**26,168**		-	**26,168**
	3,757,919		-	**3,757,919**
Equipment	**14,819**		-	**14,819**
Reclamation deposit	**50,141**		-	**50,141**
Mineral properties	**809,708**		-	**809,708**
	4,632,587		-	**4,632,587**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	**237,876**		-	**237,876**
Income tax payable	**1,948**		-	**1,948**
	239,824		-	**239,824**
Shareholders' equity				
Share capital	**5,437,996**		-	**5,437,996**
Contributed surplus	**762,139**	i.	27,143	**789,282**
Deficit	**(1,807,372)**	i.	(27,143)	**(1,834,515)**
	4,392,763		-	**4,392,763**
	4,632,587		-	**4,632,587**

Consolidated balance sheet as at February 28, 2011

	Canadian GAAP	Adjustment Reference	Adjustment	**IFRS**
	$		$	**$**
ASSETS				
Current assets				
Cash	**1,953,402**		-	**1,953,402**
Amounts receivable	**38,972**		-	**38,972**
Income tax receivable	**165,138**		-	**165,138**
Prepaid expenses	**88,140**		-	**88,140**
Deferred financing costs	**117,845**		-	**117,845**
	2,363,497		-	**2,363,497**
Equipment	**14,727**		-	**14,727**
Reclamation deposit	**52,154**		-	**52,154**
Mineral properties	**958,127**		-	**958,127**
	3,388,505		-	**3,388,505**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	**871,644**		-	**871,644**
	871,644		-	**871,644**
Shareholders' equity				
Share capital	**6,349,922**		-	**6,349,922**
Contributed surplus	**917,223**	i.	47,447	**964,670**
Deficit	**(4,750,284)**	i.	(47,447)	**(4,797,731)**
	2,516,861		-	**2,516,861**
	3,388,505		-	**3,388,505**

Consolidated statement of comprehensive loss for the three months ended August 31, 2010

	Canadian GAAP	Adjustment Reference	Adjustment	**IFRS**
	$		$	**$**
Exploration expenditures	**518,620**		-	**518,620**
Expenses				
Investor relations and shareholder information	**53,647**		-	**53,647**
Salaries and benefits	**40,797**		-	**40,797**
Stock-based compensation	**32,119**	i.	8,854	**40,973**
Travel	**31,737**		-	**31,737**
Office facilities and administrative services	**25,693**		-	**25,693**
Audit and legal	**13,461**		-	**13,461**
Transfer agent, listing and filing fees	**8,241**		-	**8,241**
Office and sundry	**7,931**		-	**7,931**
Consulting	**2,796**		-	**2,796**
Amortization	**1,655**		-	**1,655**
	218,077		8,854	**226,931**
Loss before other items	**(736,697)**		(8,854)	**(745,551)**
Other items				
Foreign exchange gain	**40,271**		-	**40,271**
Interest income	**1,288**		-	**1,288**
Loss on short-term investments	**(131,991)**		-	**(131,991)**
Net comprehensive loss	**(827,129)**		(8,854)	**(835,983)**

Consolidated statement of comprehensive loss for the six months ended August 31, 2010

	Canadian GAAP	Adjustment Reference	Adjustment	**IFRS**
	$		$	**$**
Exploration expenditures	**605,972**		-	**605,972**
Expenses				
Investor relations and shareholder information	**75,786**		-	**75,786**
Salaries and benefits	**72,876**		-	**72,876**
Stock-based compensation	**62,568**	i.	8,696	**71,264**
Office facilities and administrative services	**49,904**		-	**49,904**
Travel	**40,072**		-	**40,072**
Audit and legal	**27,719**		-	**27,719**
Office and sundry	**18,533**		-	**18,533**
Transfer agent, listing and filing fees	**10,117**		-	**10,117**
Consulting	**3,316**		-	**3,316**
Amortization	**3,281**		-	**3,281**
	364,172		8,696	**372,868**
Loss before other items	**(970,144)**		(8,696)	**(978,840)**
Other items				
Foreign exchange gain	**42,468**		-	**42,468**
Interest income	**1,295**		-	**1,295**
Gain on short-term investments	**888,009**		-	**888,009**
Net comprehensive loss	**(38,372)**		(8,696)	**(47,068)**

Consolidated statement of comprehensive loss for the year ended February 28, 2011

	Canadian GAAP	Adjustment Reference	Adjustment	**IFRS**
	$		$	**$**
Exploration expenditures	**2,768,146**		-	**2,768,146**
Expenses				
Stock-based compensation	**304,727**	i.	29,000	**333,727**
Investor relations and shareholder information	**236,110**		-	**236,110**
Salaries and benefits	**216,780**		-	**216,780**
Office facilities and administrative services	**104,882**		-	**104,882**
Travel	**90,697**		-	**90,697**
Audit and legal	**84,511**		-	**84,511**
Office and sundry	**55,083**		-	**55,083**
Consulting	**45,918**		-	**45,918**
Transfer agent, listing and filing fees	**24,504**		-	**24,504**
Amortization	**7,018**		-	**7,018**
	1,170,230		29,000	**1,199,230**
Loss before other items	**(3,938,376)**		(29,000)	**(3,967,376)**
Other items				
Foreign exchange gain	**(111,775)**		-	**(111,775)**
Interest income	**5,552**		-	**5,552**
Gain on short-term investments	**888,009**		-	**888,009**
Loss before income taxes	**(3,156,590)**		(29,000)	**(3,185,590)**
Current income tax recovery	**175,306**		-	**175,306**
Net comprehensive loss	**(2,981,284)**		(29,000)	**(3,010,284)**

Adjustment references

i. Stock-based compensation

Under Canadian GAAP, the Company recognized an expense for the fair value of stock options granted on a straight-line basis over the options' vesting periods. The fair value of stock options granted did not include a factor for estimated option forfeitures, but rather an expense reversal was recognized for actual forfeitures.

Under IFRS, the Company recognizes an expense for the fair value of stock options on a graded basis over the options' vesting periods. Generally, this will result in a greater portion of the overall fair value being recognized in the early portion of the vesting period under IFRS than under Canadian GAAP. Further, when determining the fair value of stock options granted, the Company includes a factor for estimated future option forfeitures based on historical forfeiture rates.

Statement of cash flows

Under Canadian GAAP, the Company presented interest payments received as cash flows from operating activities. Under IFRS, the Company has presented interest payments received as cash flows from financing activities. Aside from the impact of this reclassification, there have been no changes to the total operating, investing or financing cash flows under IFRS for periods previously reported under Canadian GAAP.

5. SHORT-TERM INVESTMENTS

As at March 1, 2010, the Company held 6,000,000 common shares of Stonegate Agricom Ltd., which were valued at $3,000,000. During the six months ended August 31, 2010, the Company sold these shares for gross proceeds of $3,888,009 and recorded a gain on sale of $888,009.

6. EQUIPMENT

Changes to the Company's equipment balances are as follows:

	Field Equipment	Office Equipment	Vehicles	Total
	$	$	$	$
Cost				
Balance, March 1, 2010	28,680	2,794	-	31,474
Additions	-	3,645	-	3,645
Balance, February 28, 2011	28,680	6,439	-	35,119
Additions	-	3,401	41,118	44,519
Balance, August 31, 2011	**28,680**	**9,840**	**41,118**	**79,638**
Accumulated amortization				
Balance, March 1, 2010	12,427	947	-	13,374
Additions	5,914	1,104	-	7,018
Balance, February 28, 2011	18,341	2,051	-	20,392
Additions	2,868	1,206	4,112	8,186
Balance, August 31, 2011	**21,209**	**3,257**	**4,112**	**28,578**
Carrying value				
March 1, 2010	16,253	1,847	-	18,100
February 28, 2011	10,339	4,388	-	14,727
August 31, 2011	**7,471**	**6,583**	**37,006**	**51,060**

7. MINERAL PROPERTIES

Acquisition costs

As at August 31, 2011 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs. Changes to these carrying values are as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
As at March 1, 2010	696,833	-	-	696,833
Additions	212,440	39,683	9,171	261,294
As at February 28, 2011	909,273	39,683	9,171	958,127
Additions	239,191	-	-	239,191
As at August 31, 2011	**1,148,464**	**39,683**	**9,171**	**1,197,318**

The Company has capitalized, rather than expensed, property acquisition costs on the basis that holding title to the related properties allows the Company to explore and develop these properties in the future. Acquiring and maintaining 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 conveyance 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.

Exploration expenditures

Exploration expenditures are charged to operations in the period incurred. During the six months ended August 31, 2011, exploration expenditures on the Company's mineral properties were as follows:

	Gibellini	**Del Rio**	**Hot Creek**	**Total**
	$	**$**	**$**	**$**
General	299,591	10,107	-	309,698
Property maintenance	48,630	17,861	2,666	69,157
Metallurgy	190,398	2,882	-	193,280
Engineering	17,125	290	-	17,415
Power	17,367	-	-	17,367
Water	3,862	-	-	3,862
Environmental permitting	286,640	308	-	286,948
Exploration	25,120	1,707	-	26,827
Feasibility	905,669	-	-	905,669
	1,794,402	**33,155**	**2,666**	**1,830,223**

Exploration expenditures are charged to operations in the period incurred. During the six months ended August 31, 2010, exploration expenditures on the Company's mineral properties were as follows:

	Gibellini	**Del Rio**	**Hot Creek**	**Total**
	$	**$**	**$**	**$**
General	94,196	-	-	94,196
Property maintenance	20,321	15,792	-	36,113
Drilling and trenching	191,612	-	-	191,612
Metallurgy	24,813	-	-	24,813
Engineering	13,680	-	-	13,680
Power	18,329	-	-	18,329
Water	22,845	-	-	22,845
Environmental permitting	137,563	-	-	137,563
Exploration	56,544	10,277	-	66,821
	579,903	**26,069**	**-**	**605,972**

Summary of properties

a) Gibellini Property, Nevada, U.S.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 40 unpatented lode mining claims, paying US$60,000 upon the execution of the agreement. Pursuant to the terms of the agreement, the Company is required to pay a production royalty of 2.5% of the net smelter returns ("NSR") of all mineral substances produced from the claims, to a maximum of US$3,000,000, at which point the production royalty decreases to 2.0%. The Company is also required to pay US$30,000, quarterly, and such payments are credited against any future production royalties payable. As of August 31, 2011, the Company has paid a total of US$480,000 in these advance royalty payments, including US$60,000 paid during the six months ended August 31, 2011.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 12 unpatented lode mining claims, paying US$9,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay an initial production royalty payment of US$30,000 within 60 days of production from the claims and a production royalty of 3.0% of NSR of all mineral substances produced from the claims. Also, the Company must pay an escalating series of annual payments, which will be credited against any future production royalties payable. As of August 31, 2011, the Company has paid a total of US$71,000 in these advance royalty payments, of which US$nil has been paid in the six months ended August 31, 2011; remaining payments are US$24,000, annually. Further, the Company has the option to purchase these claims for a total purchase price of US$1,000,000.

During the year ended February 28, 2008, the Company entered into a Mineral Lease Agreement to acquire 17 unpatented lode mining claims, paying US$10,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay a production royalty of 2.5% of NSR of all mineral substances produced from the claims. The Company must make annual payments of $15,000, which will be credited against any future production royalties payable. As of August 31, 2011, the Company has paid a total of US$60,000 for these advance royalty payments, including US$15,000 during the six months ended August 31, 2011. Subsequent to August 31, 2011, the Company acquired full ownership of these claims for a cash payment of US$50,000 and the issuance of 25,000 of its common shares, thereby eliminating future advance royalty payments.

Through August 31, 2011, the Company has acquired an additional 163 unpatented lode claims and seven placer claims through the staking process.

During the six months ended August 31, 2011, the Company obtained various rights to water required for production from the Gibellini Property. Consideration for these rights include a cash payment of US$100,000 and 50,000 common shares in the Company, valued at $67,500.

b) Del Rio Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 120 claims through the staking process. No additional claims have been subsequently acquired.

c) Hot Creek Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 18 claims through the staking process. No additional claims have been subsequently acquired.

8. SHAREHOLDERS' EQUITY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	Amount
		$
Outstanding, March 1, 2010	17,938,815	5,343,455
Issued on exercise of warrants	2,008,999	802,141
Issued on exercise of stock options	320,000	204,326
Outstanding, February 28, 2011	20,267,814	6,349,922
Issued through private placement, net of share issuance costs	5,771,917	6,921,767
Issued on exercise of warrants	1,166,666	466,666
Issued on exercise of stock options	87,000	141,968
Issued for water rights	50,000	67,500
Outstanding, August 31, 2011	**27,343,397**	**13,947,823**

Private placements

On March 22, 2011, the Company completed a brokered private placement of 2,770,250 common share units at a price of $1.35 per unit for gross proceeds of $3,739,838. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share at a price of $1.95 until September 22, 2012. The full value of these units is attributed to the value of the common shares. An additional 193,918 agent's warrants were issued as part of this private placement. Each agent's warrant entitles the holder to purchase one common share at a price of $1.35 per common share until March 22, 2012. Transaction costs for the private placement, which include the fair value of agent's warrants, cash commissions, and legal and other fees, totalled $577,641.

On July 15, 2011, the Company completed a non-brokered private placement of 2,334,667 common share units at a price of $1.50 per unit for gross proceeds of $3,502,001. Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $2.00 until January 15, 2013. The value of these units has been bifurcated between common shares at a value of $1.34 per share and warrants at a value of $0.16 per one-quarter warrant. An additional 23,940 finder's warrants were issued as part of this private placement. Each finder's warrant entitles the holder to purchase one common share at a price of $2.00 per common share until July 15, 2012. Transaction costs for the private placement, which include the fair value of finder's warrants, cash commissions, and legal and other fees, totalled $209,303.

On August 31, 2011, the Company completed a non-brokered private placement of 667,000 common share units at a price of $1.50 per unit for gross proceeds of $1,000,500. Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $2.00 until February 28, 2013. The value of these units has been bifurcated between common shares at a value of $1.26 per share and warrants at a value of $0.24 per one-quarter warrant.

Contingent shares

During the six months ended August 31, 2011, the Company entered into an arrangement whereby up to 500,000 of its common shares could be issued in four tranches to an officer of its subsidiary. These shares become issuable when various milestones on the development of the Gibellini property are met. Subsequent to August 31, 2011, the first milestone was met and 75,000 of these shares became issuable.

Warrants

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Fair Value
		$	$
Outstanding, March 1, 2010	3,245,665	0.40	-
Warrants exercised	(2,008,999)	0.40	-
Warrants expired	(70,000)	0.40	-
Outstanding, February 28, 2011	1,166,666	0.40	-
Warrants exercised	(1,166,666)	0.40	-
Warrants issued as part of common share units	2,135,542	1.97	0.25
Warrants issued as agent's and finder's fees	217,858	1.42	0.54
Outstanding, August 31, 2011	**2,353,400**	**1.92**	**0.28**

The fair value of warrants issued as part of common share units is determined as the excess in value of the unit over the market price of the Company's common shares on the date the units are issued.

The fair value of agent's and finder's warrants issued on a stand-alone basis is determined using the Black-Scholes option pricing model. On a weighted average basis, the following Black-Scholes model inputs have been used to value these warrants: a one-year expected life; 107.50% expected volatility; a 1.64% risk-free rate and a dividend yield of nil.

The following warrants were outstanding and exercisable as at August 31, 2011:

Expiry date	Exercise Price	Number of Warrants Outstanding and Exercisable
	$	
March 22, 2012	1.35	193,918
July 15, 2012	2.00	23,940
September 22, 2012	1.95	1,385,125
January 15, 2013	2.00	583,667
February 28, 2013	2.00	166,750
		2,353,400

Stock options

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant. Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Stock Options	**Weighted Average Exercise Price**	**Weighted Average Fair Value**
		$	$
Outstanding, March 1, 2010	1,440,000	0.48	0.34
Options granted	717,500	0.98	0.73
Options exercised	(320,000)	0.37	0.27
Outstanding, February 28, 2011	1,837,500	0.69	0.51
Options granted	575,000	1.47	1.09
Options exercised	(87,000)	0.96	0.67
Outstanding, August 31, 2011	**2,325,500**	**0.88**	**0.64**

The fair values of the stock options granted during the six months ended August 31, 2011 and year ended February 28, 2011 have been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

	For the six months ended August 31, 2011	For the year ended February 28, 2011
Risk-free interest rate	**1.86 %**	2.35 %
Annual dividends	**-**	-
Expected stock price volatility	**129.44%**	102.67%
Expected forfeiture rate	**26.88%**	-
Expected life	**2.95 years**	5 years

The following incentive stock options were outstanding and exercisable at August 31, 2011:

Expiry date	**Exercise Price**	**Number of Options Outstanding**	**Number of Options Exercisable**
	$		
February 12, 2013	1.30	138,000	138,000
December 17, 2013	0.40	25,000	25,000
January 21, 2015	0.35	887,500	787,500
April 1, 2015	0.75	40,000	40,000
August 18, 2015	0.75	50,000	37,500
November 2, 2015	0.70	275,000	162,500
December 13, 2015	1.00	60,000	45,000
December 29, 2015	1.05	75,000	55,000
December 31, 2015	1.14	50,000	37,500
February 4, 2016	1.55	50,000	37,500
February 7, 2016	1.56	100,000	75,000
March 7, 2016	1.50	25,000	12,500
March 23, 2016	1.53	300,000	-
April 29, 2016	1.64	75,000	37,500
July 19, 2016	1.34	100,000	-
August 2, 2016	1.25	50,000	-
August 12, 2016	1.19	25,000	-
		2,325,500	**1,490,500**

9. RELATED PARTY TRANSACTIONS

During the six months ended August 31, 2011, a $24,000 (2010 - $24,000) expense was recorded for office facilities, corporate and administrative services provided by a company having a director and two officers in common, of which $7,612 (February 28, 2011 - $6,382; March 1, 2010 - $4,568) is included in accounts payable and accrued liabilities.

During the six months ended August 31, 2011, a $10,000 (2010 - $nil) expense was recorded for consulting services provided by a company related through a director. As at August 31, 2011, a prepayment for future services of $10,000 (February 28, 2011 - $nil; March 1, 2010 - $nil) was receivable from this company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

	Net loss (gain) and comprehensive loss (gain) for the six months ended August 31	
	2011	2010
	$	$
Canada	**1,410,673**	(605,224)
United States	**1,819,238**	652,292
Total net loss and comprehensive loss	**3,229,911**	47,068

	Total assets as at	
	August 31 2011	February 28 2011
	$	$
Canada	**6,335,204**	2,008,127
United States	**2,166,346**	1,380,378
Total assets	**8,501,550**	3,388,505

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at August 31, 2011, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposit and accounts payable and accrued liabilities. The fair values of the Company's financial instruments approximate their carrying value due to their short-term maturity. The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Cash	6,825,971	**-**	**-**

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. A portion of the Company's expenses are incurred in United States dollars and certain cash balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

The Company has not hedged its exposure to currency fluctuations and, as at August 31, 2011, the Company held $1,694,700 (February 28, 2011 - $1,273,521) in United States dollars. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a $169,470 foreign exchange loss (gain) based on United States dollar holdings as at August 31, 2011.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources will be sufficient to cover the likely short term cash requirements and further funding will be required to meet long-term requirements.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts, management considers the interest rate risk to be limited.

12. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

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

There were no changes in the Company's approach to capital management during the six months ended August 31, 2011. The Company is not subject to externally imposed capital requirements.

13. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the three and six months ended August 31, 2011 and 2010 are as follows:

	For the three months ended August 31		**For the six months ended August 31**	
	2011	2010	**2011**	2010
Net loss (numerator)	**(1,297,666)**	(835,983)	**(3,229,911)**	(47,068)
Basic and diluted weighted average number of common shares outstanding (denominator)	**24,477,006**	18,139,250	**23,437,342**	18,075,989
Basic and diluted loss per share	**(0.05)**	(0.05)	**(0.14)**	(0.00)

The Company incurred net losses for all periods reported, so no dilutive impact of in-the-money stock options and warrants has been included calculation of diluted weighted average number of common shares outstanding.

14. EVENTS AFTER THE REPORTING PERIOD

In September 2011, the Company completed a feasibility study on its Gibellini property. Upon meeting this milestone, 75,000 shares disclosed in Note 8 became issuable to an officer of the Company.

In September 2011, the Company acquired 17 mineral claims that were previously being leased through a series of advanced royalty payments as disclosed in Note 7. Payment for these claims included US$50,000 and 25,000 of the Company's common shares.