MINERALS CORPORATION

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011 and 2010
(expressed in Canadian dollars)

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Alexis Minerals Corporation:

We have audited the accompanying consolidated financial statements of Alexis Minerals Corporation and its subsidiary, 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), consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and 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.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alexis Minerals Corporation and its subsidiary as at December 31, 2011, December 31, 2010 and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and 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 indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 30, 2012

ALEXIS MINERALS CORPORATION

Consolidated Statements of Financial Position

in Canadian dollars

	Notes	December 31, 2011	December 31, 2010 *(Note 30)*	January 1, 2010 *(Note 30)*
ASSETS				
Current assets:				
Cash and cash equivalents		$ 1,615,261	$ 9,410,889	$ 6,106,007
Amounts receivable	7	816,520	657,961	2,082,802
Tax credit receivable	8	2,000,379	6,727,736	7,465,197
Inventories	9	2,644,737	1,822,367	6,167,683
Prepaid expenses	10	1,140,259	463,159	272,808
Investments	11	44,850	641,116	122,340
		8,262,006	19,723,228	22,216,837
Non-current assets:				
Deposits and advances	10	500,000	-	-
Restricted cash equivalents	13, 17	5,767,000	5,767,000	5,767,000
Property, plant and equipment	12	13,889,831	13,143,012	20,782,156
Mineral properties and deferred exploration expenditures	13	95,837,182	69,533,782	91,356,543
TOTAL ASSETS		$ 124,256,019	$ 108,167,022	$ 140,122,536
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	14	$ 13,819,183	$ 9,348,202	$ 13,687,601
Current portion of finance lease obligations	15	89,499	137,045	411,648
Current portion of long-term debt		-	51,333	99,337
Current portion of convertible debenture liability	16	2,000,285	-	6,142,716
Other liabilities	18(b)(iv)	-	2,065,084	2,962,164
		15,908,967	11,601,664	23,303,466
Non-current liabilities :				
Finance lease obligations	15	6,302	50,667	118,008
Long-term debt		-	-	51,300
Liability component of convertible debentures	16	3,980,391	5,402,154	-
Provision for closure and reclamation	17	18,956,000	11,516,000	11,055,000
Deferred income tax liability		-	-	3,258,141
Total liabilities		38,851,660	28,570,485	37,785,915
Equity:				
Share capital	18	132,521,420	114,257,612	89,358,455
Commitment to issue shares	20	148,150	150,314	-
Equity component of convertible debentures	16	1,698,516	1,698,516	830,334
Share-based payments reserve	19	6,413,218	8,282,045	8,305,617
Transaction with owners	20	100,845	100,845	-
(Deficit)/retained earnings		(55,477,790)	(44,892,795)	687,376
Equity attributable to owners of the Company		85,404,359	79,596,537	99,181,782
Non-controlling interest		-	-	3,154,839
Total equity		85,404,359	79,596,537	102,336,621
TOTAL LIABILITIES AND EQUITY		$ 124,256,019	$ 108,167,022	$ 140,122,536

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Approved on behalf of the Directors:

“David Rigg”
Director

“Maurice Colson”
Director

ALEXIS MINERALS CORPORATION

Consolidated Statements of Operations and Comprehensive (Loss)

in Canadian dollars

	Notes	Year ended December 31, 2011	2010 (Note 30)
Revenue, net of royalties		**$ 15,544,263**	$ 25,730,144
Mine operating expenses		**(22,638,376)**	(27,780,950)
Depletion and depreciation		**(3,394,378)**	(7,144,863)
Total operating expenses		**(26,032,754)**	(34,925,813)
Gross (loss)		**(10,488,491)**	(9,195,669)
Expenses			
Professional, consulting and management	19	**(2,541,133)**	(1,931,893)
Other general and administrative expenses		**(942,361)**	(1,484,311)
Other (losses) and gains	21	**(298,448)**	293,741
Finance income		**118,855**	41,067
Finance costs	22	**(1,070,984)**	(977,938)
Impairment charge	12, 13	**(486,151)**	(42,384,665)
Loss before income tax		**(15,708,713)**	(55,639,668)
Deferred income tax recovery	24	**2,065,084**	7,331,905
(Loss) before non-controlling interest		**(13,643,629)**	(48,307,763)
Non-controlling interest		**-**	(325)
(Loss) and comprehensive (loss) for the year		**$ (13,643,629)**	$ (48,308,088)
(Loss) per share			
Basic	23	**$ (0.03)**	$ (0.19)
Diluted	23	**$ (0.03)**	$ (0.19)
Weighted average number of shares outstanding:			
Basic	23	**519,742,210**	260,965,217
Diluted	23	**519,742,210**	260,965,217

ALEXIS MINERALS CORPORATION

Consolidated Statements of Cash Flows

in Canadian dollars

	Notes	Year ended December 31, 2011	2010
Cash (used in) provided by operating activities:			
Net (loss)		**$ (13,643,629)**	$ (48,308,088)
Items not involving cash:			
Stock-based compensation	19	**562,178**	207,243
Depreciation, depletion and amortization		**3,394,378**	7,144,863
Non-cash losses/(gains) on marketable securities	21	**270,897**	(518,776)
Non-cash accretion expense	22	**856,828**	728,883
Impairment charge on mineral properties	13	**486,151**	42,384,665
Non-cash loss on disposal of equipment		**-**	121,108
Non-controlling interest		**-**	325
Deferred income tax recovery		**(2,065,084)**	(7,331,905)
Working capital adjustments:			
Change in receivables		**(158,559)**	1,424,841
Change in prepaid expenses		**(1,341,366)**	(190,351)
Change in inventories		**(624,049)**	4,199,301
Change in payables and provisions		**2,970,368**	1,323,288
Net cash (used in) provided by operating activities		**(9,291,887)**	1,185,397
Investing activities			
Investment in mineral properties and deferred exploration expenditures		**(19,669,983)**	(19,484,168)
Property, plant and equipment expenditures		**(2,054,536)**	(3,599,685)
Working capital adjustments related to investing activities		**1,525,612**	(2,682,210)
Exploration tax credits received		**3,092,672**	4,186,446
Proceeds from sale of investments	11	**325,369**	-
Net cash (used in) investing activities		**(16,780,866)**	(21,579,617)
Financing activities			
Proceeds from public offering		**20,125,000**	26,561,000
Share issue costs		**(1,622,926)**	(2,463,592)
Exercise of broker warrants and options		**-**	300,000
Financing costs on debenture		**-**	(172,750)
Long-term debt payments		**(51,333)**	(103,748)
Finance lease payments		**(173,616)**	(421,808)
Net cash provided by financing activities		**18,277,125**	23,699,102
Change in cash and cash equivalents		**(7,795,628)**	3,304,882
Cash and cash equivalents, beginning of the year		**9,410,889**	6,106,007
Cash and cash equivalents, end of the year		**$ 1,615,261**	$ 9,410,889
Cash and cash equivalents are comprised of:			
Cash in bank		**$ 1,585,261**	$ 1,391,451
Cash equivalents		**$ 30,000**	$ 8,019,438
Non-cash investing and financing transactions			
Common shares issued to acquire subsidiary		**$ -**	$ 2,274,544
Common shares issued for interest payment		**$ 208,770**	$ 339,107
Common shares issued to settle liability		**$ -**	$ 2,854,143
Broker warrants charged as share issue costs		**$ 449,200**	$ 305,800
Options and warrants granted to acquire subsidiary		**$ -**	$ 564,951
Warrants issued for prepaid financing costs		**$ 64,800**	$ -
Accretion of convertible debentures charged to mineral properties		**$ 173,464**	$ 137,240
Depreciation charged to mineral properties		**$ 322,339**	$ 288,931
Equipment acquired under finance leases		**$ 81,705**	$ 79,864
Stock-based compensation charged to mineral properties		**$ 113,630**	$ 35,590
Interest paid		**$ 415,937**	$ 438,832

ALEXIS MINERALS CORPORATION

Consolidated Statements of Changes in Equity

in Canadian dollars

	Share capital		Commitment to issue shares	Convertible debenture	Share-based payments reserve	Transaction with owners	Accumulated Deficit	Equity attributable to owners	Non-controlling interest	Total equity
	No.	$	$	$	$	$	$	$	$	$
Balance, December 31, 2010	390,555,288	114,257,612	150,314	1,698,516	8,282,045	100,845	(44,892,795)	79,596,537	-	79,596,537
Public offering	201,250,000	20,125,000	-	-	-	-	-	20,125,000	-	20,125,000
Value of broker warrants granted on public offering	-	(449,200)	-	-	449,200	-	-	-	-	-
Value of warrants granted for bridge loan	-	-	-	-	64,800	-	-	64,800	-	64,800
Stock-based compensation	-	-	-	-	675,807	-	-	675,807	-	675,807
Expiry of stock options	-	-	-	-	(3,058,634)	-	3,058,634	-	-	-
Shares issued in lieu of interest payment	1,832,922	208,770	-	-	-	-	-	208,770	-	208,770
Shares issued on tender of Garson shares	7,461	2,164	(2,164)	-	-	-	-	-	-	-
Share issue costs	-	(1,622,926)	-	-	-	-	-	(1,622,926)	-	(1,622,926)
Loss for the year	-	-	-	-	-	-	(13,643,629)	(13,643,629)	-	(13,643,629)
Balance, December 31, 2011	**593,645,671**	**132,521,420**	**148,150**	**1,698,516**	**6,413,218**	**100,845**	**(55,477,790)**	**85,404,359**	**-**	**85,404,359**
Balance, January 1, 2010	214,968,615	89,358,455	-	830,334	8,305,617	-	687,376	99,181,782	3,154,839	102,336,621
Public offering	95,833,333	14,375,000	-	-	-	-	-	14,375,000	-	14,375,000
Value of warrants granted on public offering	-	(1,344,259)	-	-	1,344,259	-	-	-	-	-
Value of broker warrants granted on public offering	-	(305,800)	-	-	305,800	-	-	-	-	-
Private placement	50,774,998	12,186,000	-	-	-	-	-	12,186,000	-	12,186,000
Shares issued and to be issued to acquire subsidiary	6,550,200	2,274,544	150,314	-	-	100,845	-	2,525,703	(3,154,839)	(629,136)
Value of warrants and options granted to acquire subsidiary	-	-	-	-	564,951	-	-	564,951	-	564,951
Shares issued to settle liabilities	19,027,619	2,854,143	-	-	-	-	-	2,854,143	-	2,854,143
Value of warrants attached to shares issued to settle liabilities	-	(266,902)	-	-	266,902	-	-	-	-	-
Exercise of broker warrants	2,000,000	300,000	-	-	-	-	-	300,000	-	300,000
Reallocate value of exercised broker warrants	-	127,600	-	-	(127,600)	-	-	-	-	-
Expiry of warrants and stock options	-	-	-	-	(2,727,917)	-	2,727,917	-	-	-
Stock-based compensation	-	-	-	-	242,833	-	-	242,833	-	242,833
Roll-over of convertible debentures	-	-	-	868,182	-	-	-	868,182	-	868,182
Value of warrants issued for convertible debenture roll-over	-	-	-	-	107,200	-	-	107,200	-	107,200
Shares issued in lieu of interest payment	1,400,546	339,107	-	-	-	-	-	339,107	-	339,107
Premium on flow-through shares	-	(2,065,084)	-	-	-	-	-	(2,065,084)	-	(2,065,084)
Future tax effects of share issue costs	-	(1,111,600)	-	-	-	-	-	(1,111,600)	-	(1,111,600)
Adjustment	(23)	-	-	-	-	-	-	-	-	-
Share issue costs	-	(2,463,592)	-	-	-	-	-	(2,463,592)	-	(2,463,592)
Loss for the year	-	-	-	-	-	-	(48,308,088)	(48,308,088)	-	(48,308,088)
Balance, December 31, 2010	**390,555,288**	**114,257,612**	**150,314**	**1,698,516**	**8,282,045**	**100,845**	**(44,892,795)**	**79,596,537**	**-**	**79,596,537**

-See accompanying notes to the annual consolidated financial statements -

1. Nature of operations and going concern

Alexis Minerals Corporation ("Alexis" or the "Company") currently has interests in mineral exploration and development properties in the province of Québec and, through its 100% owned subsidiary, Garson Gold Corp. ("Garson"), in the province of Manitoba. The Company is in commercial production at the Lac Herbin deposit and is also continuing to focus on the exploration and development of its other gold and base metal projects within these regions. The registered head office of the Company is located at 65 Queen Street West, Suite 815, Toronto, Ontario, Canada.

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

The Company's shares are listed on the Toronto Stock Exchange. These consolidated financial statements of the Company for the years ended December 31, 2011 and 2010 were approved and authorized for issue by the Board of Directors on March 30, 2012.

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

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

2. Basis of preparation

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

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 30 discloses the impact of the transition to IFRS on the Company's consolidated statements of financial position as at January 1, 2010 and December 31, 2010 and the consolidated statements of operations and comprehensive loss for the year ended December 31, 2010.

The preparation of financial statements in accordance with IAS 1 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

3. Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2012 or later periods. Updates are not applicable or are not consequential to the Company have been excluded thereof.

3. Future accounting changes (continued)

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

IFRS 9, Financial Instruments -- Classification and Measurement ("IFRS 9") was issued November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2015, with early adoption permitted. The Company has not yet determined the potential impact of the amendments to IFRS 9 on its consolidated financial statements.

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

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

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

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

4. Principles of consolidation

The annual consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiary, Garson, as well as its proportionate share of the accounts of the joint ventures in which the Company has an interest.

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

4. Principles of consolidation (continued)

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

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date except for non-current assets that are classified as held for sale in accordance with IFRS 5 *'Non-current Assets Held for Sale and Discontinued Operations',* which are recognized and measured at fair value less costs to sell;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in profit or loss;
- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is preformed with subsequent changes in the fair value recorded through the consolidated statement of operations.

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

Transactions and non-controlling interests
Transactions with non-controlling interests are treated as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between the consideration paid and the non-controlling share of the carrying value of net assets acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are similarly computed and also recorded in equity.

5. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Assets' carrying values and impairment charges
  In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

5. Significant accounting judgments, estimates and assumptions (continued)

- Capitalization of exploration and evaluation costs
  Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 13 for details of capitalized exploration and evaluation costs.

- Tax credits receivable
  The Company receives assistance in the form of refundable tax credits from the Québec provincial government. The Company estimates the amounts recoverable based on the relevant tax laws and recognizes a current asset, applying the credits against the mineral exploration properties to which they apply. Such estimates are subject to change based on changes in laws and regulations.

- Mineral reserve estimates
  The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

- Impairment of mineral properties and deferred exploration expenditures
  While assessing whether any indications of impairment exist for mineral properties and deferred exploration expenditures, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral properties and deferred exploration expenditures. Internal sources of information include the manner in which mineral properties and deferred exploration expenditures are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties and deferred exploration expenditures.

- Estimation of decommissioning and restoration costs and the timing of expenditure
  The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

5. Significant accounting judgments, estimates and assumptions (continued)

- Income taxes and recoverability of potential deferred tax assets
  In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments
  Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Contingencies
  Refer to Note 28.

6. Significant accounting policies

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

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

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

Foreign exchange gains and losses are presented in the consolidated statement of operations and comprehensive (loss) within "other gains and (losses)".

The functional currency of the Company and its subsidiary is the Canadian dollar.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

6. Significant accounting policies (continued)

Revenue recognition
Metal sales
Revenue from the sale of metals is recognized when all of the following conditions are satisfied:

- the specific risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue
Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

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

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

Finance costs
Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

Company as lessee
Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

6. Significant accounting policies (continued)

Taxation

Current tax

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

Deferred tax

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

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

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

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

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

Mineral properties and deferred exploration expenditures

Exploration and evaluation properties

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

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

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

Development

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

6. Significant accounting policies (continued)

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

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

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

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

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

Depreciation/amortization
Property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives as follows:

- Buildings - 4 to 30 years
- Machinery and equipment - 4 to 7 years
- Mobile equipment – 3 to 5 years
- Office equipment and furniture – 3 to 8 years

The mill is amortized on a unit-of-production basis.

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

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

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

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

For exploration and evaluation assets, indicators of impairment would include expiration of a right to explore, no budgeted or planned material expenditures in an area or a decision to discontinue exploration in a specific area.

6. Significant accounting policies (continued)

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

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

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

Financial assets

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

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

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

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

Subsequent measurement

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

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

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

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

6. Significant accounting policies (continued)

Derecognition
A financial asset is derecognized when:

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

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

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

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

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

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

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

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

The Company's financial liabilities include accounts payable and accrued liabilities, long-term debt, liability component of convertible debenture and finance leases.

6. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

Compound financial instruments (debenture)
Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

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

6. Significant accounting policies (continued)

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

Inventories
Gold doré and stockpiled ore are physically measured or estimated and valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depletion, depreciation and amortization, incurred in converting materials into finished goods.

Materials and supplies are valued at the lower of cost or net realizable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

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

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

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

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

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

Flow-through shares
Flow-through shares are a unique Canadian tax incentive. They are the subject of specific guidance under US GAAP, but there is no equivalent IFRS guidance. Therefore, the Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted market price of the common shares and the amount the investor pays for the flow-through shares. A current liability is recognized for the premium paid by the investors and is then recognized as a deferred income tax liability in the period of renunciation if the Company does not have sufficient unrealized tax losses and deductions.

6. Significant accounting policies (continued)

Joint ventures
A portion of the Company's exploration activities are conducted jointly with others wherein the Company enters into agreements that provide for a specified percentage interest in exploration properties. Expenditures on these properties are capitalized to mineral properties and deferred exploration expenditures. Joint venture accounting, which reflects the Company's proportionate interest in exploration properties is applied by the Company only when the parties have earned their respective interests and enter into a formal comprehensive agreement for joint ownership and exploration participation.

7. Amounts receivable

	December 31, 2011	December 31, 2010	January 1, 2010
Taxes receivable	$ 701,296	$ 537,697	$ 2,038,739
Interest receivable	24,001	23,996	-
Other receivables	91,223	96,268	44,063
	$ 816,520	$ 657,961	$ 2,082,802

8. Tax credit receivable

Balance at January 1, 2010	$	7,465,197
Tax credits received		(4,186,446)
Accrued tax credits receivable for the period		3,099,948
Adjustments to tax credits accrued		349,037
Balance at December 31, 2010		6,727,736
Tax credits received		(3,092,672)
Accrued tax credits receivable for the period		521,630
Adjustments to tax credits accrued		(2,156,315)
Balance at December 31, 2011	**$**	**2,000,379**

As at December 31, 2011, an amount of approximately $798,000 in government assistance is accrued for the year ended December 31, 2010 and $680,000 is accrued for the year ended December 31, 2009. The Company has accrued an additional $522,000 for the current period ended December 31, 2011. The assistance has been applied to the properties to which it pertains. The Company receives this assistance in the form of refundable tax credits from the Québec Provincial Government and mining duties returns from the Québec Ministry of Natural Resources. New regulations with respect to the mining duties return have been enacted such that the Company is no longer eligible to claim this credit.

9. Inventories

	December 31, 2011	December 31, 2010	January 1, 2010
Materials and supplies	$ 872,819	$ 643,753	$ 426,494
Stockpiled ore	866,671	239,035	4,354,454
Gold brick or doré bars	905,247	939,579	1,386,735
	$ 2,644,737	$ 1,822,367	$ 6,167,683

The amount of inventories recognized as an expense during the year ended December 31, 2011 is $26,032,754 (year ended December 31, 2010: $34,925,813).

9. Inventories (continued)

All inventory is carried at the lower of cost and net realizable value. Material and supplies inventory is recorded at cost as at December 31, 2011, December 31, 2010 and January 1, 2010. As at December 31, 2011, $866,671 (December 31, 2010: $239,035; January 1, 2010: $700,000) in stockpiled ore and $905,247 (December 31, 2010: $939,579; January 1, 2010: $1,300,000) in finished gold brick and doré bars is recorded at net realizable value. A total of $1,057,756 of stockpiled ore and finish gold brick and doré inventory was written down to net realizable value and included in mine operating expenses on the consolidated statements of operations and comprehensive loss for the year ended December 31, 2011 (2010: $958,802).

10. Prepaid expenses

	December 31, 2011	December 31, 2010	January 1, 2010
Mining supplier advances	$ 437,276	$ 92,230	$ 93,900
Reclamation deposits	187,596	71,674	-
Deferred financing costs	366,777	81,073	-
Insurance	40,947	42,833	76,799
Corporate advances	107,663	175,349	102,109
	$ 1,140,259	$ 463,159	$ 272,808

The Company paid $500,000 to a drilling contractor as a deposit and this amount is recorded as a long-term deposit and advance.

11. Investments

Through its Garson subsidiary, the Company's investments include shares in the following securities. These securities are classified as fair value through profit or loss ("FVTPL").

		December 31, 2011		December 31, 2010		January 1, 2010	
	Classification	No. held	Value	No. held	Value	No. held	Value
Current investments							
Minera IRL Ltd.	FVTPL	-	$ -	207,072	$ 300,736	207,072	$ -
Centurion Minerals, Ltd.	FVTPL	85,000	$ 28,050	150,000	$ 229,500	150,000	$ 100,500
Takara Resources, Inc.	FVTPL	336,000	$ 16,800	336,000	$ 110,880	336,000	$ 21,840
			$ 44,850		**$ 641,116**		**$ 122,340**

During the year ended December 31, 2011, the Company, through its Garson subsidiary, sold its shares of Mineral IRL Ltd. for net proceeds of $270,364 (year ended December 31, 2010: $nil). As well, the Company sold 65,000 of its shares of Centurion Minerals Ltd. for net proceeds of $55,005 (year ended December 31, 2010: $nil).

The Company also recorded an unrealized loss with respect to the valuation of FVTPL investments of $576,766 for the year ended December 31, 2011, which includes the reversals of unrealized gains from previous periods (year ended December 31, 2010: gains of $518,776)(Note 21).

12. Property, plant and equipment

	Office equipment and furniture	Machinery and equipment	Mobile equipment	Buildings	Mill	TOTAL
Cost as at January 1, 2010	$ 172,795	$ 7,206,909	$ 4,759,126	$ 2,988,283	$ 8,635,392	$ 23,762,505
Additions	73,165	271,517	362,667	70,957	2,901,241	3,679,547
Disposals	-	(233,710)	-	-	-	(233,710)
Change in rehabilitation provision	-	-	-	-	443,000	443,000
Cost as at December 31, 2010	245,960	7,244,716	5,121,793	3,059,240	11,979,633	27,651,342
Additions	8,425	294,115	725,783	353,611	754,307	2,136,241
Disposals	-	-	-	-	-	-
Change in rehabilitation provision	-	-	-	-	180,000	180,000
Cost as at December 31, 2011	**$ 254,385**	**$ 7,538,831**	**$ 5,847,576**	**$ 3,412,851**	**$ 12,913,940**	**$ 29,967,583**
Accumulated depreciation, depletion and impairment as at January 1, 2010	$ (129,859)	$ (896,201)	$ (1,692,268)	$ (262,021)	$ -	$ (2,980,349)
Charge for the year	(50,825)	(700,407)	(718,033)	(251,236)	(954,869)	(2,675,370)
Provision for impairment	-	(514,370)	(130,542)	(371,000)	(7,949,301)	(8,965,213)
Disposals	-	112,602	-	-	-	112,602
Depreciation, depletion and impairment as at December 31, 2010	(180,684)	(1,998,376)	(2,540,843)	(884,257)	(8,904,170)	(14,508,330)
Charge for the year	(34,300)	(445,893)	(676,146)	(132,087)	(280,996)	(1,569,422)
Provision for impairment	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation, depletion and impairment as at December 31, 2011	**$ (214,984)**	**$ (2,444,269)**	**$ (3,216,989)**	**$ (1,016,344)**	**$ (9,185,166)**	**$ (16,077,752)**
Net book value as at January 1, 2010	$ 42,936	$ 6,310,708	$ 3,066,858	$ 2,726,262	$ 8,635,392	$ 20,782,156
Net book value as at December 31, 2010	$ 65,276	$ 5,246,340	$ 2,580,950	$ 2,174,983	$ 3,075,463	$ 13,143,012
Net book value as at December 31, 2011	**$ 39,401**	**$ 5,094,562**	**$ 2,630,587**	**$ 2,396,507**	**$ 3,728,774**	**$ 13,889,831**

During the year ended December 31, 2011, the Company expensed $1,247,083 in depreciation to the statement of operations (year ended December 31, 2010: $2,386,439) and charged $322,339 to mineral properties and deferred exploration expenditures (year ended December 31, 2010: $288,931).

Included in property, plant and equipment is the Val-d'Or mill that has been operating since the second quarter of 2010. Depreciation expense, calculated on a unit-of-production basis, of $280,996 has been recorded for the year ended December 31, 2011 (year ended December 31, 2010: $954,869). The Company's Snow Lake mill is also included in property, plant and equipment and is currently on care and maintenance. No depreciation expense has been recorded in relation to the Snow Lake mill.

13. Mineral properties and deferred exploration expenditures

	PRODUCING PROPERTY	EXPLORATION AND EVALUATION						
	Lac Herbin, Quebec	Rouyn, Quebec	Lac Pelletier, Quebec	VMS, Quebec	Aurbel, Quebec	Snow Lake, Manitoba	Other, Manitoba	TOTAL
Cost as at January 1, 2010	$ 30,857,460	$ 13,607,148	$ 12,877,705	$ 9,617,443	$ 5,607,990	$ 25,198,080	$ -	$ 97,765,826
Additions, net of government assistance	684,959	1,020,204	7,736,587	1,635,287	1,051,270	7,458,968	50,390	19,637,665
Pre-production revenues	-	-	(3,075,951)	-	-	(794,615)	-	(3,870,566)
Change in rehabilitation provision	(28,000)	-	-	-	-	469,999	-	441,999
Cost as at December 31, 2010	31,514,419	14,627,352	17,538,341	11,252,730	6,659,260	32,332,432	50,390	113,974,924
Additions	5,783,469	2,033,177	1,193,972	2,222,162	377,450	9,814,167	489,704	21,914,101
Change in rehabilitation provision	46,000	-	23,000	-	-	6,923,000	-	6,992,000
Cost as at December 31, 2011	**$ 37,343,888**	**$ 16,660,529**	**$ 18,755,313**	**$ 13,474,892**	**$ 7,036,710**	**$ 49,069,599**	**$ 540,094**	**$ 142,881,025**
Accumulated depletion and impairment as at January 1, 2010	$ (6,409,283)	$ -	$ -	$ -	$ -	$ -	$ -	$ (6,409,283)
Charge for the year	(4,612,407)	-	-	-	-	-	-	(4,612,407)
Provision for impairment	(20,492,729)	-	(12,926,723)	-	-	-	-	(33,419,452)
Disposals								-
Depletion and impairment as at December 31, 2010	(31,514,419)	-	(12,926,723)	-	-	-	-	(44,441,142)
Charge for the year	(2,116,550)	-	-	-	-	-	-	(2,116,550)
Provision for impairment	(486,151)	-	-	-	-	-	-	(486,151)
Disposals	-	-	-	-	-	-	-	-
Depletion and impairment as at December 31, 2011	**$ (34,117,120)**	**$ -**	**$ (12,926,723)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (47,043,843)**
Net book value as at January 1, 2010	$ 24,448,177	$ 13,607,148	$ 12,877,705	$ 9,617,443	$ 5,607,990	$ 25,198,080	$ -	$ 91,356,543
Net book value as at December 31, 2010	$ -	$ 14,627,352	$ 4,611,618	$ 11,252,730	$ 6,659,260	$ 32,332,432	$ 50,390	$ 69,533,782
Net book value as at December 31, 2011	**$ 3,226,768**	**$ 16,660,529**	**$ 5,828,590**	**$ 13,474,892**	**$ 7,036,710**	**$ 49,069,599**	**$ 540,094**	**$ 95,837,182**

Aurbel Property (including Lac Herbin), Québec

The Company holds a 100% interest in the Aurbel Property (including Lac Herbin), subject to a 4.5% Net Smelter Royalty ("NSR"). A corporation that is controlled by a director of the Company holds 2% of the NSR. See Note 27.

On October 1, 2008, the Company declared the commencement of commercial production at Lac Herbin.

During the year ended December 31, 2011, the Company wrote down the value of the Lac Herbin property reflecting an impairment in value after reassessment of reserves and a revised life-of-mine plan. The Company assessed for impairment during the current period and recorded an impairment charge for the year ended December 31, 2011 of $486,151.

13. Mineral properties and deferred exploration expenditures (continued)

Rouyn Noranda Properties, Québec

Pursuant to the June 15, 2004 binding letter of intent with Xstrata Copper ("Xstrata"), a business unit of Falconbridge Ltd., the Company held a 50% interest in all of Xstrata's properties in the prospective Rouyn-Noranda Base Metal and Gold Camp.

In August 2011, the Company closed on an agreement with Xstrata to assume a 100% interest in the joint-venture properties for consideration of $200,000 in cash. Xstrata would retain a right to back-in to a 65% interest on any base metal deposit containing more than 350,000 tonnes copper metal equivalent after presentation of a NI 43-101 compliant resource, under the following conditions:

- Pay Alexis three times the project specific exploration and development expenditures; and
- Pay Alexis three times the Rouyn regional base metal exploration expenditures up to a maximum of $20 million;
- Xstrata Copper must complete a NI 43-101 compliant Feasibility Study, within a specified period and at no cost to Alexis;
- Alexis will retain a 35% interest; receive a 6-month financing period subsequent to a production decision; and, will participate in a JV management committee where unanimous agreement is required on critical mining decisions.

The back-in right does not apply to any gold geposit; defined as a deposit where the value of gold and silver are three times greater than the value of base metals; using 6-month average metal prices at closing. As such, gold deposits are solely to the Alexis account.

Xstrata retains a 1-2% NSR on all metals on mineral claims transferred to Alexis. Where historic royalties exist, the combined royalty is capped at 3 to 4%. In areas with no prior royalties, the NSR is capped at 2%. Xstrata has the right to explore for, and exploit smelter materials (e.g. Flux) in all areas. Should smelter materials be mined from the Alexis properties, Alexis will receive a royalty of $0.50 per tonne plus 50% of any gold which may be recovered. Subsequent to closure, Alexis and Xstrata Copper will work cooperatively together for a period of up to 12 months to review the underlying agreements made over the last 40 years to develop this unique property package, in order to resolve any third-party rights or obligations. The 10-claim, West Ansil Property will be excluded from the agreement and will continue as a 50/50 JV. Xstrata retain their rights of first refusal for custom milling and smelting of base metal production. All regional areas of interest applicable under the historical JV are cancelled.

Certain claims that form part of this property are subject to NSR royalties that range from 0.5% to 2% of net proceeds or production royalties that range from 7.5% to 20%.

Lac Pelletier Property, Rouyn-Noranda, Québec

Pursuant to the September 2005 option agreement with Thundermin Resources Inc. ("Thundermin"), the Company was entitled to acquire a 100% interest in the Lac Pelletier Property, subject to a 3.5% NSR royalty and $1/tonne toll charge, by spending $1,000,000 in exploration expenditures by September 1, 2008. During 2007, the Company met its expenditure obligations.

Pursuant to the agreement, the Company extended its decision deadline and was required to make a production decision by September 1, 2009 and reach commercial production by September 1, 2010. The Company further amended this agreement such that the production decision deadline had been extended to September 1, 2010 with a payment of $100,000 in 2009. Prior to September 1, 2010, the Company issued a production commitment notice to Thundermin, thereby exercising its option to acquire the Lac Pelletier Property. The Company is in discussion with Thundermin regarding the transfer of full title and ownership of the Property to the Company. Thundermin has initiated an arbitration proceeding pursuant to which it has claimed that the purported exercise by the Company of its option to acquire a 100% interest in the property is invalid, both parties have retained counsel to commence such proceedings. The Company believes that Thundermin’s claim is without merit.

During 2009, the Company entered into a property acquisition agreement to acquire a 100% interest in four mining claims located near Lac Pelletier, subject to a 2% NSR. The Company has the option to purchase, at any time, 50% of the NSR for US$1,000,000.

In 2010, the Company wrote down the value of the Lac Pelletier property by an amount of $12,927,473 to reflect an impairment in value.

13. Mineral properties and deferred exploration expenditures (continued)

VMS Properties, Québec

The Company holds a 100% interest in the VMS properties, subject to Teck Cominco Ltd. (formerly Aur Resources Ltd.) retaining between a 2% and a 2.5% NSR on the properties depending on pre-existing underlying royalties. Certain claims forming part of this property are subject to NSR royalties of 1% to 2.5%, net profits royalties of 5% or net proceeds of production royalties of 10% or 25 cents charge per ton milled. Certain of the properties were held under previously existing joint venture agreements. The other party to these agreements has opted to no longer fund the properties.

Snow Lake, Manitoba

Through the acquisition of Garson, the Company acquired a 100% interest in the New Britannia Gold Mine ("NBM") in Snow Lake, Manitoba. The Company has since renamed the mine "Snow Lake Mine". A total of $5,767,000 in financial assurances is posted with both the Government of Manitoba and Kinross Gold Corporation ("Kinross") (the former owners of the New Britannia Mine) refundable upon commercial production at the mine. The letter of credit with the Manitoba government is financial assurance that the site will ultimately be closed according to the terms of the existing and approved closure plan. Once closure is complete, all or a portion of the letter of credit will be refunded to the Company. Should a NI 43-101 compliant resource of 3 million ounces be proven, Kinross retains a back-in right for a 60% interest for consideration of the equivalent of three-times the exploration costs incurred to that date.

NSR royalties totaling 2.88% on various portions of the Snow Lake property are held by third parties.

Herblet Lake, Manitoba

In November 2010, the Company entered into an agreement to acquire a 100% interest in certain mining claims in the Herblet Lake area. To acquire this 100% interest, the Company is required to make total cash payments of $300,000 and incur total exploration expenditures of $3,000,000 over a period of 5 years according to the following schedule:

	Commitment		
	Cash Payment ($)	Expenditures ($)	
November 19, 2010	50,000	-	**Paid December 2010
November 19, 2011	50,000	200,000	**Paid October 2011; expenditures met
November 19, 2012	50,000	300,000	
November 19, 2013	50,000	500,000	
November 19, 2014	50,000	1,000,000	
November 19, 2015	50,000	1,000,000	
	300,000	3,000,000	

The exercise of the option is subject to an NSR of 3% payable from the date of commencement of commercial production. Upon exercise of the option, the Company will be required to make advanced royalty payments of $50,000 annually up to $250,000 to be credited against future NSR payments. The Company has the right to purchase up to 50% of the NSR for a total of $1,500,000, each 0.5% of the 3% NSR requiring a $500,000 payment. As of December 31, 2011, the Company has met its exploration expenditures commitment due November 2011.

McMillian Property, Ontario

In December 2011, the Company entered into an agreement to option out its indirect 100% interest in the McMillan Property (held by Garson) to Canadian Star Minerals Ltd ("Canadian Star"). Under the terms of the agreement, Canadian Star can acquire up to a 65% interest in this property in such increments as outlined below:

- 30% interest with $200,000 in exploration and development expenditures made before December 31, 2012 and the issuance of 300,000 common shares of Canadian Star at such time as Canadian Star's shares are listed on the TSX or TSX Venture;
- An additional 10% interest with an additional $200,000 in exploration and development expenditures made before December 31, 2013 and the issuance of 300,000 common shares of Canadian Star;

13. Mineral properties and deferred exploration expenditures (continued)

- An additional 10% interest with an additional $200,000 in exploration and development expenditures made before December 31, 2014 and the issuance of 300,000 common shares of Canadian Star;
- A further 15% interest if during a two year period after the third anniversary of the date of signing of the agreement, Canadian Star shall complete an economic feasibility study.

If Canadian Star's common shares do not trade on the TSX or TSX Venture by the above noted deadlines, Canadian Star shall pay cash in lieu of shares to the Company at a deemed rate of $0.25 per share.

14. Accounts payable and accrued liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
Mining and exploration suppliers	$ 9,785,990	$ 6,129,271	$ 11,574,833
Corporate payables	881,661	1,031,923	583,212
Payroll liabilities	1,390,322	589,304	776,222
Royalties payable	1,761,210	1,597,704	753,334
	$ 13,819,183	$ 9,348,202	$ 13,687,601

15. Finance lease obligations

The Company had entered into various finance leasing arrangements for mobile equipment for terms of 24 months at interest rates of between 7.75% and 32.8%.

As at December 31, 2011, the future minimum lease payments under the finance lease arrangements were:

Finance lease obligations	
December 2012	93,993
December 2013	6,524
	100,517
Less: Amounts representing interest	(4,716)
	95,801
Less: Current portion	89,499
Long-term portion	$ 6,302

The fair value of the finance leases is approximately equal to their carrying amount.

16. Convertible debentures

a) During 2006, the Company completed a private placement debenture financing with Industrial Alliance Securities Inc. ("Industrial Alliance") raising $4,210,000 in gross proceeds with the issuance of units comprised of $1,000 principal convertible debentures (the "Debentures") maturing April 28, 2010 and 150 common share purchase warrants (the "Warrants"). The $1,000 face value Debentures were unsecured and subordinated obligations of the Company, had a coupon rate of 6.0% and were convertible at the option of the holder. Interest on the loan was payable in cash or in common shares of the Company at the option of the Company based on a price equal to 90% of the average closing price of the common shares of the Company on the TSX Exchange for a period of 20 consecutive trading days ending 5 days before the payment date. The Warrants expired unexercised.

On April 28, 2010, the Company entered into agreements with the current holders of the expiring $4,210,000 convertible debentures to roll over the existing 6% convertible debentures into units comprised of $1,000 principal amount 10% convertible unsecured subordinated debentures due April 28, 2014. Interest will be payable in equal semi-annual instalments on April 30 and October 30 at 10% per annum commencing October 30, 2010. At the option of the Company, interest shall be payable in cash or in shares. If payment is in shares, it will be based on a price equal to 90% of the average closing price of the common shares of the Company on the Toronto Stock Exchange for a period of 20 consecutive trading days ending five trading days before payment date. Each debenture is convertible at the option of the holder into common shares of the Company at any time after the issue date at the conversion price of $0.40 per share. Except in the event of a change of control, the debentures are not redeemable prior to April 28, 2012. On or after April 28, 2012 and up to and including April 28, 2014, the debentures may be redeemed by the Company at the option of the Company at par plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' notice prior to the date fixed for redemption provided that the average closing price of the Company's common shares during the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the conversion price. A charge of $94,000 was incurred in relation to the roll-over agreements.

The Debentures are classified as a liability, with the exception of the portion relating to the conversion features, resulting in the carrying value of the Debentures being less than its face value. The discount is being accreted over the term of the Debentures, utilizing the effective interest rate method at a 15% discount rate. An amount of $571,309 was recorded as financing costs for the year ended December 31, 2011 (year ended December 31, 2010: $570,059).

Financing charges associated with the Debentures were prorated between the debt and equity components of the Debentures. Those allocated to the debt portion of the Debentures are deferred and accreted over the term of the Debentures. For the year ended December 31, 2011, $17,519 (year ended December 31, 2010: $39,380) in deferred financing charges were recorded as financing costs.

In May 2011, the Company issued 1,832,922 common shares of the Company in lieu of the 10% cash interest payment due to the debenture holders on April 28, 2011. The shares were valued at a weighted average price of $0.1139 per share for a total amount of $208,770. Subsequent to the end of the year, the Company issued 3,380,407 common shares in lieu of the 10% cash interest payment due to debenture holders on October 30, 2011 after receiving regulatory approval. The shares were valued at a weighted average price of $0.0621 per share for a total amount of $209,923. In 2010, the Company issued a total of 1,400,546 shares in lieu of cash interest payments due on April 28 and October 30, 2010 on these debentures for a total value of $339,107.

b) As a result of the acquisition of Garson, the Company is carrying a convertible debenture with a face value of $2,150,000 as at December 31, 2011 (2010: $2,150,000). This debenture has a coupon rate of 10%, and interest is compounded monthly and paid quarterly in cash. The original debenture matured on July 28, 2010. On July 15, 2010, the Company entered into an agreement to extend the term of this debenture to July 31, 2012. The debenture is convertible into common shares of the Company at a price of $0.40 per share at the option of the holder. There were 4,000,000 Garson warrants issued to the debenture holder at the time of the original agreement, which were converted to warrants of the Company at a ratio of 0.29 on April 29, 2010. These were cancelled during the third quarter of 2010 and 4,000,000 warrants were re-issued at an exercise price of $0.50 with an expiry date of July 15, 2012. The Company paid an arrangement fee of $53,750 to extend the term of the debenture.

The debenture has been classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value being less than its face value. The discount is being accreted over the remaining term of the debenture at an effective interest rate of 15%. For the year ended December 31, 2011, accretion expense related to this debenture totalled $173,464 (year ended December 31, 2010: $137,240) and was capitalized to the Snow Lake project. As well, interest paid or accrued against this debenture of $219,225 for the year ended December 31, 2011 (year ended December 31, 2010: $219,681) was also capitalized to mineral properties and deferred exploration expenditures.

16. Convertible debentures (continued)

This debenture has been classified as a current liability as at December 31, 2011.

Subsequent to the end of the year, the Company settled this debenture with a payment of $2,150,000 plus accrued interest (Note 29).

17. Provision for closure and reclamation

The Company's provision for closure and reclamation costs are based on management's estimates of costs to abandon and reclaim mineral properties and facilities as well as an estimate of the future timing of the costs to be incurred.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the provision for closure and reclamation associated with the retirement of the Company's plant and mineral properties:

Balance at January 1, 2010	$	11,055,000
Adjustments resulting from re-measurement or settlement without cost		(81,000)
Unwinding of discount and effect of changes in the discount rate		542,000
Balance at December 31, 2010		11,516,000
Unwinding of discount and effect of changes in the discount rate		7,440,000
Balance at December 31, 2011	**$**	**18,956,000**

The Company has estimated its total provision for closure and reclamation to be $18,956,000 at December 31, 2011 based on a total future liability of approximately $17,413,000 and at an inflation rate of 2.30% and a discount ranging between 0.99% and 1.51%. Reclamation is expected to occur in five to seven years.

Through Garson, the Company has term deposits amounting to $5,767,000 restricted for the reclamation of the Snow Lake property. The Company has placed funds on deposit as collateral for letters of credit issued to the vendor of the NBM, Kinross Gold Corporation, as well as to the Government of Manitoba, for Garson's share of assumed reclamation and operating obligations. The Company pays an annual fee of 1% of the face value of the letter. Funds on deposit are invested in short term GICs earning interest at 1.2%. The GICs can be redeemed prior to maturity without penalty.

18. Issued capital

a) As at December 31, 2011, December 31, 2010 and January 1, 2010, the Company's authorized number of common shares was unlimited without par value.

b) Common shares	Number of Shares		Amount
Balance, January 1, 2010	**214,968,615**	**$**	**89,358,455**
Public offering (ii)	95,833,333		14,375,000
Private placement (iii)	50,774,998		12,186,000
Warrant and broker warrant valuation (ii)	-		(1,650,059)
Exercise of broker warrants	2,000,000		300,000
Broker warrant exercise -- valuation reallocation	-		127,600
Shares issued for acquisition of subsidiary (Note 20)	6,550,200		2,274,544
Shares issued to settle liabilities (ii)	19,027,619		2,854,143
Value of warrants attached to shares issued to settle liabilities (ii)	-		(266,902)
Shares issued for payment of interest	1,400,546		339,107
Cost of issue	-		(2,463,592)
Tax effect of cost of issue	-		(1,111,600)
Premium on flow-through shares (iv)	-		(2,065,084)
Adjustment	(23)		-
Balance, December 31, 2010	**390,555,288**	**$**	**114,257,612**
Public offering (i)	201,250,000		20,125,000
Shares issued for payment of interest (Note 16(a))	1,832,922		208,770
Shares issued for acquisition of subsidiary (Note 20)	7,461		2,164
Value of broker warrants granted on public offering (i)	-		(449,200)
Cost of issue	-		(1,622,926)
Balance, December 31, 2011	**593,645,671**	**$**	**132,521,420**

(i) In May 2011, the Company completed a bought deal offering with the issuance of 175,000,000 common shares of the Company at a price of $0.10. As well, an over-allotment option to purchase an additional 26,250,000 common shares of the Company at $0.10 per share was granted to the underwriters and exercised. In total, the Company raised gross proceeds of $20,125,000. Commissions of 7% were charged by the underwriters with respect to this financing. The Company granted the underwriters 12,075,000 broker warrants which are exercisable into 12,075,000 common shares of the Company at a price of $0.10 per share until May 12, 2014. The grant-date fair value of these broker warrants, $449,200, was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield: 0%; expected volatility: 66%; risk-free interest rate: 1.70%; and expected life: 2 years. Additional issue costs included legal fees and other disbursements.

18. Issued capital (continued)

(ii) In September 2010, the Company closed a public offering of 95,833,333 units of the Company raising a gross amount of $14,375,000. Each unit, priced at $0.15 per unit, comprised one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company at a price of $0.40 expiring on September 2, 2013. If at any time commencing the 20th trading day after the closing date of the offering the weighted average trading price of the common shares of the Company listed on the Toronto Stock Exchange ("TSX") is or exceeds $0.55 for a period of 20 consecutive trading days, the Company may accelerate the expiry of the warrants by giving prior notice to the holders of the warrants within 10 business days immediately following such 20 day trading period. In such an event, the warrants, if unexercised, will expire on the 30th calendar day following the date on which such notice will be deemed to have been received by such holders of warrants. The notice will be deemed to be received five days following the date such notice was sent. As well, 19,027,619 units under the same terms were issued to settle liabilities totalling $2,854,143. The grant date fair value of the warrants was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield: 0%; expected volatility: 71%; risk-free interest rate: 1.55%; and expected life: approximately 3 years.

The underwriters received a commission of 7% of the total proceeds, as well as 4,791,666 broker warrants which have an exercise price of $0.15 and expire September 2, 2012. The grant date fair value of the broker warrants was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield: 0%; expected volatility: 78%; risk-free interest rate: 1.55%; and expected life: approximately 2 years. Additional issue costs included legal fees and other disbursements.

(iii) In December 2010, the Company closed a private placement financing through the issuance of 50,774,998 flow-through common shares at a price of $0.24 per flow-through common share for gross proceeds of $12,186,000. The underwriters received a commission of 7% of the total proceeds. Total issue costs related to this financing was $984,711.

(iv) The Company recorded a premium of $2,065,084 on the flow-through shares issued in December 2010 against share capital, generating a liability which was recorded as a credit on the statement of operations on renunciation in February 2011.

19. Share-based payments reserve

	No. of options	Weighted Average Exercise Price	Value of options	No. of warrants	Weighted Average Exercise Price	Value of warrants	TOTAL VALUE
January 1, 2010	13,938,000	$0.59	$ 5,442,574	16,931,503	$0.82	$ 2,863,043	$ 8,305,617
Granted	2,647,630	0.65	384,733	78,212,180	0.39	2,447,212	2,831,945
Exercised	-	0.00	-	(2,000,000)	0.15	(127,600)	(127,600)
Expired	(1,645,000)	0.76	(950,340)	(10,872,033)	0.89	(1,777,577)	(2,727,917)
Forfeited	-	0.00	-	-	0.00	-	-
December 31, 2010	**14,940,630**	**$0.58**	**$ 4,876,967**	**82,271,650**	**$0.42**	**$ 3,405,078**	**$ 8,282,045**
Granted	11,940,000	0.12	675,807	16,075,000	0.09	514,000	1,189,807
Exercised	-	0.00	-	-	0.00	-	-
Expired	(6,112,868)	0.59	(1,550,117)	(18,049,507)	0.50	(1,508,517)	(3,058,634)
Forfeited	(281,250)	0.43	-	-	0.00	-	-
December 31, 2011	**20,486,512**	**$0.31**	**$ 4,002,657**	**80,297,143**	**$0.33**	**$ 2,410,561**	**$ 6,413,218**

19. Share-based payments reserve (continued)

Employee share option plan

The shareholders of the Company approved the Company's existing stock option plan, the "Plan", to be administered by the directors of the Company. Under the Plan, the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. Options granted under the Plan will be for a term not to exceed 5 years. The options currently granted under the plan vest immediately pending any regulatory hold period. The plan provides that, it is solely within the discretion of the board to determine who should receive stock options and in what amounts. In no case (calculated at the time of grant) shall the plan result in:

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

During the year ended December 31, 2011, 11,940,000 stock options (year ended December 31, 2010: 2,647,630) were granted to directors, officers, and employees of the Company with a weighted-average grant date fair value of $0.06 per option (year ended December 31, 2010: $0.18). Of these options, 8,940,000 vested immediately while 3,000,000 vest one quarter, every three months starting on the date of grant. Stock-based compensation expense of $562,178 relating to these options and others that vested was recorded in professional, consulting and management fees for the year ended December 31, 2011, while $113,630 was charged to mineral properties for the same period. For the year ended December 31, 2010, the Company recorded $207,243 in stock-based compensation to the statement of operations, and $35,590 to mineral properties. The fair value of these options was estimated on the date of grant using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility over the past 5 years. The expected life of the option was calculated based on the history of option exercises.

The following share-based payment arrangements were in existence as at December 31, 2011:

WARRANTS AND BROKER WARRANTS:

	No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
	4,000,000	4,000,000	15-Jul-10	15-Jul-12	$ 0.500	$ 107,200	78%	2.00	0%	1.66%
	57,430,477	57,430,477	2-Sep-10	2-Sep-13	$ 0.400	$ 1,611,161	71%	3.00	0%	1.55%
	2,791,666	2,791,666	2-Sep-10	2-Sep-12	$ 0.150	$ 178,200	78%	2.00	0%	1.55%
	12,075,000	12,075,000	12-May-11	12-May-14	$ 0.100	$ 449,200	66%	2.00	0%	1.70%
*	4,000,000	4,000,000	28-Dec-11	28-Dec-13	$ 0.047	$ 64,800	83%	2.00	0%	0.93%
	80,297,143	80,297,143				$ 2,410,561				

* Please see Subsequent Events, Note 29.

19. Share-based payments reserve (continued)

STOCK OPTIONS:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
25,000	25,000	5-Mar-07	5-Mar-12	$ 0.91	$ 15,075	80%	5.00	0%	3.95%
100,000	100,000	9-Apr-07	9-Apr-12	$ 1.14	$ 75,800	80%	5.00	0%	4.00%
2,837,500	2,837,500	27-Aug-07	27-Aug-12	$ 0.79	$ 1,591,838	88%	5.00	0%	4.30%
7,500	7,500	11-Oct-07	11-Oct-12	$ 0.94	$ 5,243	95%	5.00	0%	4.40%
155,000	155,000	19-Oct-07	19-Oct-12	$ 0.91	$ 104,780	95%	5.00	0%	4.30%
2,500	2,500	1-Nov-07	1-Nov-12	$ 0.89	$ 1,650	95%	5.00	0%	4.20%
1,928,500	1,928,500	4-Aug-08	5-Aug-13	$ 0.49	$ 620,977	80%	5.00	0%	3.20%
15,000	15,000	14-Jul-09	14-Jul-14	$ 0.26	$ 3,900	77%	5.00	0%	2.50%
2,902,500	2,902,500	21-Dec-09	21-Dec-14	$ 0.43	$ 760,455	76%	5.00	0%	1.35%
200,000	200,000	23-Feb-10	23-Feb-15	$ 0.40	$ 46,820	69%	5.00	0%	2.50%
108,750	108,750	30-Apr-10	4-Feb-14	$ 0.35	$ 16,500	76%	3.80	0%	2.42%
15,768	15,768	30-Apr-10	4-Jan-12	$ 0.97	$ -	79%	1.68	0%	1.90%
21,750	21,750	30-Apr-10	4-Jan-12	$ 1.03	$ -	79%	1.68	0%	1.90%
9,244	9,244	30-Apr-10	24-Aug-12	$ 1.03	$ -	73%	1.90	0%	1.90%
177,500	168,125	9-Jun-10	9-Jun-15	$ 0.23	$ 27,512	78%	5.00	0%	2.65%
50,000	50,000	4-Nov-10	4-Nov-15	$ 0.22	$ 7,365	77%	5.00	0%	1.98%
2,000,000	2,000,000	10-Jan-11	10-Jan-16	$ 0.20	$ 254,200	77%	5.00	0%	2.46%
1,105,000	1,105,000	10-Feb-11	10-Feb-16	$ 0.17	$ 120,118	77%	5.00	0%	2.75%
3,000,000	2,250,000	6-Jun-11	6-Jun-16	$ 0.10	$ 166,500	78%	5.00	0%	2.23%
5,825,000	5,825,000	29-Nov-11	29-Nov-16	$ 0.10	$ 191,643	80%	5.00	0%	1.46%
20,486,512	19,727,137				$ 4,010,376				

20. Transactions with owners

The Company acquired the non-controlling interest of Garson on April 29, 2010 through the issuance of 6,550,200 shares. As at December 31, 2011, some shareholders had not yet tendered their Garson shares, and consequently an amount of $148,150 (2010: $150,314) is recorded as a commitment to issue shares. During the year ended December 31, 2011, 7,461 shares with a value of $2,164 were tendered. The consideration paid was applied against the non-controlling interest and the residual amount of $100,845 was recorded to transactions with owners.

21. Other gains and losses

	Year ended December 31, 2011	2010
Net foreign exchange (losses)/gains	$ (24,695)	$ 70,626
General exploration expenditures	(2,856)	-
Transaction costs on acquisition of Garson	-	(194,553)
(Loss) on disposal of equipment	-	(101,108)
Unrealized (loss)/gain arising on financial assets designated as FVTPL	(576,766)	518,776
Realized gain on sale of financial assets	305,869	-
	$ (298,448)	$ 293,741

22. Finance costs

	Year ended December 31, 2011	2010
Flow-through interest penalty	$ (67,994)	$ (94,022)
Accretion of reclamation provision	(268,000)	(115,000)
Accretion of convertible debenture	(588,828)	(609,439)
Other interest expense	(146,162)	(159,477)
	$ (1,070,984)	$ (977,938)

23. Loss per share

Shares issuable from options, warrants or convertible debentures were excluded from the computation of diluted loss per share because their effect would be anti-dilutive for the years ended December 31, 2011 and 2010.

24. Deferred income tax

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 28% (December 31, 2010 - 30%) were:

	2011 $	2010 $
(Loss) before income taxes	(15,708,713)	(55,639,668)
Expected income tax recovery based on statutory rate	(4,438,000)	(16,692,000)
Adjustment to expected income tax benefit:		
Stock-based compensation	159,000	62,000
Share issue costs	(554,000)	(740,000)
Amortization	959,000	2,224,000
Accretion on decommissioning liablilities and convertible deb.	242,000	277,000
Interest paid on convertible debentures	(59,000)	(102,000)
Finance lease payments	(49,000)	(146,000)
Non-taxable flowthrough share premium	2,065,084	2,962,164
Accounting loss on marketable securities	77,000	(156,000)
Sale of marketable securities	44,000	-
Other	19,000	28,000
CEDOE	806,000	-
pre-operating rev	-	1,161,000
Write down of properties	137,000	17,084,741
Benefits not recognized	2,657,000	1,369,000
Deferred income tax recovery	2,065,084	7,331,905

24. Deferred income tax (continued)

b) Deferred income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, 2011 and December 31, 2010 are as follows:

	2011 $	2010 $
Deferred income tax assets (liabilities):		
Non-capital loss carry-forwards	10,172,000	6,597,000
Share issue costs	1,372,000	1,693,000
Mineral property costs	(4,686,000)	2,476,000
Property, plant and equipment	1,311,000	918,000
Unrecognized deferred income tax assets	(8,169,000)	(11,684,000)
	-	-

c) The Company has approximately $77,000,000 of Canadian development and exploration expenditures as at December 31, 2011 which under certain circumstances can be used to reduce the taxable income of future years.

d) The Company has approximately $40,467,000 of non-capital losses in Canada as at December 31, 2011 which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

Expiry Date	
2014	1,044,000
2015	1,550,000
2026	1,790,000
2027	200,000
2028	9,888,000
2029	5,162,000
2030	9,442,000
2031	11,391,000
	40,467,000

25. Financial instruments

Financial assets and financial liabilities as at December 31, 2011, December 31, 2010 and January 1, 2010 were as follows:

December 31, 2011	Cash, loans and receivables, other liabilities	Assets/liabilities at fair value through profit or loss	TOTAL
Cash and cash equivalents	$ 1,585,261	$ 30,000	$ 1,615,261
Amounts receivables	816,520	-	816,520
Investments	-	44,850	44,850
Restricted cash	-	5,767,000	5,767,000
Accounts payable and accrued liabilities	13,819,183	-	13,819,183
Finance leases, current and long-term	95,801	-	95,801
Liability component of convertible debenture	5,980,676	-	5,980,676

25. Financial instruments (continued)

December 31, 2010	Cash, loans and receivables, other liabilities	Assets/liabilities at fair value through profit or loss	TOTAL
Cash and cash equivalents	$ 1,391,451	$ 8,019,438	$ 9,410,889
Amounts receivables	657,961	-	657,961
Investments	-	641,116	641,116
Restricted cash	-	5,767,000	5,767,000
Accounts payable and accrued liabilities	9,348,202	-	9,348,202
Finance leases, current and long-term	187,712	-	187,712
Debt, current and long term	51,333	-	51,333
Liability component of convertible debenture	5,402,154	-	5,402,154

January 1, 2010	Cash, loans and receivables, other liabilities	Assets/liabilities at fair value through profit or loss	TOTAL
Cash and cash equivalents	$ 6,091,007	$ 15,000	$ 6,106,007
Amounts receivables	2,082,802	-	2,082,802
Investments	-	122,340	122,340
Restricted cash	-	5,767,000	5,767,000
Accounts payable and accrued liabilities	13,687,601	-	13,687,601
Finance leases, current and long-term	529,656	-	529,656
Debt, current and long term	150,637	-	150,637
Liability component of convertible debenture	6,142,716	-	6,142,716

A fair value hierarchy prioritizes the methods and assumptions used to develop fair value measurements for those financial assets where fair value is recognized on the balance sheet. These have been prioritized into three levels.

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

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

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

Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement.

The following table sets forth the Company’s financial assets and liabilities measured at fair value by level within the fair value hierarchy as at December 31, 2011.

	Level 1	Level 2	Level 3
Cash equivalents	$ -	$ 1,615,261	$ -
Restricted cash equivalents	$ -	$ 5,767,000	$ -
Investments	$ 44,850	$ -	$ -

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the years ended December 31, 2011 and 2010.

25. Financial instruments (continued)

Credit risk

The Company's credit risk is primarily attributable to cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates and bankers acceptances, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist of receivables from related and unrelated companies. The Company currently transacts with highly rated counterparties for the sale of gold. Management believes that the credit risk concentration with respect to these financial instruments is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2011, the Company had a cash and cash equivalents balance of $1,615,261 (December 31, 2010: $9,410,889; January 1, 2010: $6,106,007) to settle current liabilities of $15,908,967 (December 31, 2010: $11,601,664; January 1, 2010: $23,303,466). Approximately $11,929,000 of the Company's financial liabilities as at December 31, 2011 have contractual maturities of less than 30 days and are subject to normal trade terms.

Interest rate risk

The Company has cash balances subject to fluctuations in the prime rate. The Company's current policy is to invest excess cash in investment-grade deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company carries convertible debentures on which interest is payable quarterly or semi-annually at fixed rates of 10% per annum. Management believes that interest rate risk is remote as investments have maturities of three months or less and the Company currently does not carry interest bearing debt at floating rates.

Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. All gold sales revenues are denominated in US dollars. The Company is exposed to currency risk with fluctuations in the Canadian dollar relative to the US dollar. The Company currently does not use derivatives to mitigate its foreign currency risk.

Price risk

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

Securities price risk

The Company carries investments in certain public securities for which price fluctuations can affect the Company's earnings. The Company classifies these investments as held-for-trading where price volatility is reflected in earnings.

25. Financial instruments (continued)

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the year:

- The Company does not hold interest bearing debt at interest rates subject to market fluctuations to give rise to interest rate risk.

- Based on the gold brick and doré inventory held by the Company as at December 31, 2011, 10% fluctuations in the exchange rate from US$ to CDN$ will generate increases or decreases in value of approximately $91,000.

- Based on the gold brick and doré inventory held by the Company at December 31, 2011, an increase or decrease in the market price of gold of US$100 per ounce would generate a respective increase or decrease in value of approximately $58,000.

- The Company has not currently hedged its future gold sales.

- The Company does not hold significant cash balances in foreign currencies to give rise to foreign exchange risk.

26. Capital management

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

The Company is in production and has been generating cash flows to support the ongoing and longer term strategy focused on regional exploration. However, the Company may continue to rely on capital markets to support continued growth. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

There were no changes in the Company's approach to capital management during the years ended December 31, 2011 and 2010. The Company and its subsidiary are not subject to externally imposed capital requirements.

27. Related party disclosures

The annual consolidated financial statements include the financial statements of the Company and its 100% wholly-owned subsidiary, Garson.

27. Related party disclosures (continued)

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

	Sales of goods and services	
	Year ended December 31,	
	2011	2010
2227929 Ontario Inc.	$ -	$ -
Forbes & Manhattan, Inc.	-	-

	Purchases of goods and services	
	Year ended December 31,	
	2011	2010
2227929 Ontario Inc.	$ 381,660	$ 305,635
Forbes & Manhattan, Inc.	334,196	518,873

The Company shares office space with other companies who may have officers or directors in common with the Company. The costs associated with this space are administered by 2227929 Ontario Inc. Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes & Manhattan, Inc. (see Note 29). An administration fee of $5,000 per month was previously charged by Forbes & Manhattan, Inc. pursuant to a consulting agreement. Effective September 1, 2011, the contract with Forbes & Manhattan, Inc. was increased to $25,000 per month. As well, a 2% royalty is payable on gold sales from the Aurbel properties (including Lac Herbin) to Forbes & Manhattan, Inc.

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

	Amounts owed by related parties		Amounts owed to related parties	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
2227929 Ontario Inc.	$ 18,000	$ 51,252	$ 64,307	$ -
Forbes & Manhattan, Inc.	$ -	$ -	$ 243,302	$ 526,106

The amounts outstanding are unsecured and non-interest-bearing. No guarantees have been given or received. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties. During the year ended December 31, 2011, the Company paid $500,000 to Forbes & Manhattan, Inc. for outstanding royalties (2010: $238,152). (Note 13)

Directors and officers of the Company subscribed for 6,525,000 common shares at $0.10 per share in the May 2011 financing.

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

	Year ended December 31,	
	2011	2010
Short-term benefits	$ 1,373,253	$ 1,121,157
Share-based payments	591,780	-

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

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

28. Commitments and contingencies

(a) The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $3,200,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contractual commitments remaining under the agreements are approximately $1,000,000, all due within one year.

(b) Pursuant to the issuance of 50,774,998 flow-through shares in December 2010, the Company renounced $12,186,000 of qualified exploration expenditures in February 2011. As at December 31, 2011, the Company has met its expenditure commitment.

The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

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

29. Subsequent events

In January 2012, the Company completed a bridge financing with Resource Income Fund, L.P. ("RIF") raising gross proceeds of $10,000,000 to continue its operations until such time as long term financing is finalized. As well as funding working capital, the bridge loan was used to repay an outstanding $2,150,000 convertible debenture (Note 16(b)). The bridge loan must be repaid at the earlier of the Company securing financing through a long term debt facility or a non-flow-through equity financing, or August 31, 2012. The bridge loan bears interest at an annual percentage rate of 15% and was paid upfront. Interest shall be refunded at specified rates should the Company pay down the bridge loan earlier than August 31, 2012. An upfront fee of 3% was paid to RIF upon closing of the facility. In conjunction with the financing, RIF has been granted 4,000,000 warrants priced at $0.047 per share which represents a 5% premium to the 10-day volume-weighted average price ("VWAP") of the Company's common equity. These warrants were granted on December 28, 2011, and their grant-date fair value was deferred until the loan closed subsequent to the end of the year. The value of the warrants was estimated at $64,800 using the Black-Scholes option pricing model using the following assumptions: expected dividend yield: 0%; expected volatility: 83%; risk-free interest rate: 1%; expected life: 2 years. RIF has additionally been granted a call option on 7,000 oz of gold struck at US$1,900/oz. As well, the Company purchased put options for US$744,600 for 30,000 oz of gold at a strike price of $1,300/oz as part of a price protection program.

Subsequent to the end of the year, the Company received regulatory approval to issue 3,380,407 common shares in lieu of the 10% cash interest payment due to debenture holders on October 30, 2011. The shares were valued at a weighted average price of $0.0621 per share for a total amount of $209,923.

In February 2012, Mr. Stan Bharti resigned from the Board of Directors of the Company and Mr. Chantal Lavois joined the Board of Directors.

30. Transition to IFRS

The Company's consolidated financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS and these annual consolidated financial statements were prepared as described in Note 2, including the application of IFRS 1.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

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

30. Transition to IFRS (continued)

IFRS Exemption Options

1. *Business combinations* - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The Company elected to apply IFRS 3 prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.

2. *Share-based payments* - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

3. *Changes in existing decommissioning, restoration and similar liabilities – IFRIC -1.* The Company did not apply the recognition and measurement principles of IFRIC 1 prior to January 1, 2010; and instead measured the Company's environmental rehabilitation obligations at fair value on January 1, 2010, estimating the amounts that would have been included in the cost of the related mining properties when the obligations first arose using the applicable historical country-specific risk free rates and recalculating the accumulated depletion for such assets at January 1, 2010.

4. *IAS 27 – Consolidated and separate financial statements*

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

5. *IAS 23 – Borrowing costs*

   In accordance with IFRS 1, the Company has elected to apply the transitional provisions of IAS 23 prospectively from the transition date. As a result, the Company has not capitalized borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the asset prior to the Transition Date.

6. *IAS 32 – Compound financial instruments*

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

IFRS Mandatory Exceptions

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

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive loss and cash flows for prior periods. The changes made to the consolidated statements of financial position and consolidated statements of operations and comprehensive (loss) have resulted in reclassifications of various amounts on the consolidated statements of cash flows. The impacts on the consolidated statements of cash flows are not significant and consequently reconciliations between Canadian GAAP and IFRS are not presented. Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

30. Transition to IFRS (continued)

Changes in accounting policies:

The following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company (Note 6).

a) Share-based compensation and warrants

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

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

Forfeitures

Canadian GAAP - Forfeitures of awards are recognized as they occur

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

Expiration of share-based compensation

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

IFRS – The Company has changed its policy regarding expired share-based compensation whereby amounts recorded for expired, unexercised stock options and warrants are transferred to retained earnings/(deficit) on expiry. The impact of this change was to decrease contributed surplus and decrease deficit by $11,350,235 at December 31, 2010 ($8,622,318 at January 1, 2010).

b) Measurement of decommissioning and rehabilitation provision

Canadian GAAP – Asset retirement obligations are measured at fair value, incorporating market assumptions and discount rates based on the entity's credit-adjusted risk-free rate. Adjustments are made to asset retirement obligations for changes in the timing or amount of the cash flows and the unwinding of the discount. However, changes in discount rates alone do not result in a re-measurement of the provision. Changes in estimates that decrease the liability are discounted using the discount rate applied upon initial recognition of the liability while changes that increase the liability are discounted using the current discount rate.

IFRS – IFRS requires decommissioning provisions to be measured based on management's best estimate of the expenditures that will be made and adjustments to the provision are made in each period for changes in the timing or amount of cash flow, changes in the discount rate, and the accretion of the liability to fair value (unwinding of the discount). Furthermore, the estimated future cash flows should be discounted using the current rates.

As a result in the change in the discount rates being applied, the Company recorded an adjustment to the value of the rehabilitation provision recorded in its accounts on December 31, 2010 totaling $7,957,000 (January 1, 2010: $7,387,135). The change impacted the carrying value of mineral properties and deferred exploration expenditures by $7,221,000 (January 1, 2010: $6,573,135), the value of property, plant and equipment by $nil (January 1, 2010: $814,000) and impairment charge on the statement of operations for the year ended December 31, 2010 by $736,000. The accretion (or unwinding of the discount) of the provision for rehabilitation is presented as a finance cost under IFRS. Accretion expense increased by $736,000 during the year ended December 31, 2010 as a result of these changes.

30. Transition to IFRS (continued)

c) Flow through shares

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

IFRS – There is no equivalent IFRS guidance. SIC Interpretation 25, Income Taxes – Changes in the Tax Status of an Entity or its Shareholders, provides some additional guidance in that it requires that the current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result in a direct credit to the recognized amount in equity. The portion of tax liabilities or assets related to such recognized equity amounts which is not included in profit or loss must be charged or credited directly to equity. As at December 31, 2010, $2,065,084 was recorded as a liability, $9,303,572 was debited to share capital and $7,238,488 was credited to deficit. As at January 1, 2010, $2,962,164 was recorded as a liability, $9,699,228 was debited to share capital and $6,737,064 was credited to deficit.

d) Non-controlling interest

Canadian GAAP – When the non-controlling interest is not obligated to fund its share of losses, the Company does not attribute losses to the non-controlling interest once the interest has been reduced to nil.

IFRS – Losses applicable to a non-controlling interest in a subsidiary are allocated to the non-controlling interest even if it results in a deficit position.

The Company has elected to apply the change in policy regarding the accounting for non-controlling interest prospectively from January 1, 2010. This change did not result in any effect on the Company's financial statements.

e) Completion of the acquisition of Garson

Canadian GAAP – The completion of the acquisition of Garson during 2010 was accounted for as the final step in a step acquisition.

IFRS – This transaction is accounted for as a transaction among owners with any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received being recognized directly in equity. As a result of this change, the Company recorded an adjustment on December 31, 2010 of the following:

- A net increase in mineral properties and deferred exploration expenditures of $776,508
- A decrease in property, plant and equipment of $705,686
- A decrease in the liability component of convertible debenture of $48,529
- Transaction with owners of $100,845
- A decrease in deficit of $18,506

f) Borrowing costs

Canadian GAAP – Borrowing costs were expensed as incurred.

IFRS – Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. As a result of this change, the Company capitalized $356,920 to mineral properties and deferred exploration expenditures at December 31, 2010 crediting financing costs on the statement of operations for the year ended December 31, 2010.

30. Transition to IFRS (continued)

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

Canadian GAAP accounts	Notes	Canadian GAAP Balances	IFRS Adjustments	IFRS Balance
Assets				
Current assets				
Cash and cash equivalents		$ 6,106,007	$ -	$ 6,106,007
Amounts receivable		2,082,802	-	2,082,802
Tax credits receivable		7,465,197	-	7,465,197
Inventories		6,167,683	-	6,167,683
Prepaid expenses		272,808	-	272,808
Investments		122,340		122,340
		22,216,837	-	22,216,837
Non-current assets				
Restricted cash equivalents		5,767,000	-	5,767,000
Property, plant and equipment	30.b	19,968,156	814,000	20,782,156
Mineral propertes and deferred exploration expenditures	30.b	84,783,408	6,573,135	91,356,543
Total assets		$ 132,735,401	$ 7,387,135	$ 140,122,536
Liabilities				
Current liabilites				
Accounts payable		13,687,601	-	13,687,601
Current portion of capital lease obligations		411,648	-	411,648
Current portion of long-term debt		99,337	-	99,337
Other liabilities	30.c	-	2,962,164	2,962,164
Liability component of convertible debenture		6,142,716	-	6,142,716
		20,341,302	2,962,164	23,303,466
Non-current liabilities				
Capital lease obligations		118,008	-	118,008
Long-term debt		51,300	-	51,300
Liability component of convertible debenture			-	-
Provision for closure and reclamation	30.b	3,667,865	7,387,135	11,055,000
Deferred income tax liability		3,258,141	-	3,258,141
Total liabilities		27,436,616	10,349,299	37,785,915
Shareholder's equity			-	-
Share capital	30.c	99,057,683	(9,699,228)	89,358,455
Commitment to issue shares		-	-	-
Equity component of convertible debentures		830,334	-	830,334
Share-based payments reserve	30.a	16,927,935	(8,622,318)	8,305,617
Transaction with owners		-	-	-
Retained earnings (deficit)	30.a,c	(14,672,006)	15,359,382	687,376
Equity attributable to owners of the Company		102,143,946	(2,962,164)	99,181,782
Non-controlling interest		3,154,839	-	3,154,839
Total equity		105,298,785	(2,962,164)	102,336,621
TOTAL LIABILITIES AND EQUITY		$ 132,735,401	$ 7,387,135	$ 140,122,536

30. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Financial Position as of December 31, 2010

Canadian GAAP accounts	Notes	Canadian GAAP Balances	IFRS Adjustments	IFRS Balance
Assets				
Current assets				
Cash and cash equivalents		$ 9,410,889	$ -	$ 9,410,889
Amounts receivable		657,961	-	657,961
Tax credits receivable		6,727,736	-	6,727,736
Inventories		1,822,367	-	1,822,367
Prepaid expenses		463,159	-	463,159
Investments		641,116	-	641,116
		19,723,228	-	19,723,228
Non-current assets				
Restricted cash equivalents		5,767,000	-	5,767,000
Property, plant and equipment	30.e	13,848,698	(705,686)	13,143,012
Mineral propertes and deferred exploration expenditures	30.b,e,f	61,179,354	8,354,428	69,533,782
Total assets		$ 100,518,280	$ 7,648,742	$ 108,167,022
Liabilities				
Current liabilites				
Accounts payable		9,348,202	-	9,348,202
Current portion of capital lease obligations		137,045	-	137,045
Current portion of long-term debt		51,333	-	51,333
Other liabilities	30.c	-	2,065,084	2,065,084
Liability component of convertible debenture		-	-	-
		9,536,580	2,065,084	11,601,664
Non-current liabilities				
Capital lease obligations		50,667	-	50,667
Long-term debt		-	-	-
Liability component of convertible debenture	30.e	5,450,683	(48,529)	5,402,154
Provision for closure and reclamation	30.b	3,559,000	7,957,000	11,516,000
Deferred income tax liability		-	-	-
Total liabilities		18,596,930	9,973,555	28,570,485
Shareholder's equity				
Share capital	30.c	123,561,184	(9,303,572)	114,257,612
Commitment to issue shares		150,314	-	150,314
Equity component of convertible debentures		1,698,516	-	1,698,516
Share-based payments reserve	30.a	19,632,280	(11,350,235)	8,282,045
Transaction with owners	30.e	-	100,845	100,845
Retained earnings (deficit)	30.a,b,c,e,f	(63,120,944)	18,228,149	(44,892,795)
Equity attributable to owners of the Company		81,921,350	(2,324,813)	79,596,537
Non-controlling interest		-		-
Total equity		81,921,350	(2,324,813)	79,596,537
TOTAL LIABILITIES AND EQUITY		$ 100,518,280	$ 7,648,742	$ 108,167,022

30. Transition to IFRS (continued)

Reconciliation of Consolidated Statements of Operations and Comprehensive Loss for the year ended December 31, 2010

Canadian GAAP accounts	Notes		Canadian GAAP Balances		IFRS Adjustments		IFRS Balance
Revenue, net of royalties		$	25,730,144	$	-	$	25,730,144
Mine operating expenses							
Depletion and depreciation			(27,780,950)		-		(27,780,950)
Total operating expenses			(7,144,863)		-		(7,144,863)
Gross (loss)			(34,925,813)		-		(34,925,813)
			(9,195,669)		-		(9,195,669)
Expenses							
Professional, consulting and management			(1,931,893)		-		(1,931,893)
Other general and administrative expenses			(1,484,311)		-		(1,484,311)
Other gains and losses	30.e		488,294		(194,553)		293,741
Finance income			41,067		-		41,067
Finance costs	30.f		(1,334,858)		356,920		(977,938)
Impairment charge	30.b		(41,648,665)		(736,000)		(42,384,665)
Loss before income tax			(55,066,035)		(573,633)		(55,639,668)
Deferred income tax recovery	30.c,e		6,617,422		714,483		7,331,905
Loss and comprehensive loss for the period		$	(48,448,613)	$	140,850	$	(48,307,763)
Loss attributable to:							
Owners of the Company			(48,448,938)		140,850		(48,308,088)
Non-controlling interest			325		-		325
			(48,448,613)		140,850		(48,307,763)
Loss per share							
Basic		$	(0.19)		-	$	(0.19)
Diluted		$	(0.19)		-	$	(0.19)
Weighted average number of shares outstanding:							
Basic			260,965,217		-		260,965,217
Diluted			260,965,217		-		260,965,217