**MINERALS CORPORATION**

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three months ended March 31, 2011 and 2010
(expressed in Canadian dollars)

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

**UNAUDITED**

# ALEXIS MINERALS CORPORATION

## Condensed Interim Consolidated Statements of Financial Position

**UNAUDITED**

*in Canadian dollars*

| | Notes | March 31, 2011 | December 31, 2010 *(Note 29)* | January 1, 2010 *(Note 29)* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | | $ 1,289,953 | $ 9,410,889 | $ 6,106,007 |
| Amounts receivable | 7 | 815,653 | 657,961 | 2,082,802 |
| Tax credit receivable | 8 | 5,602,181 | 6,727,736 | 7,465,197 |
| Inventories | 9 | 1,922,472 | 1,822,367 | 6,167,683 |
| Prepaid expenses | | 634,084 | 463,159 | 272,808 |
| Investments | 10 | 530,964 | 641,116 | 122,340 |
| | | 10,795,307 | 19,723,228 | 22,216,837 |
| **Non-current assets:** | | | | |
| Restricted cash equivalents | 12, 16 | 5,767,000 | 5,767,000 | 5,767,000 |
| Property, plant and equipment | 11 | 13,463,903 | 13,143,012 | 20,782,156 |
| Mineral properties and deferred exploration expenditures | 12 | 75,046,645 | 69,533,782 | 91,356,543 |
| **TOTAL ASSETS** | | $ 105,072,855 | $ 108,167,022 | $ 140,122,536 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities:** | | | | |
| Accounts payable | 13 | $ 9,021,881 | $ 9,348,202 | $ 13,687,601 |
| Current portion of capital lease obligations | 14 | 129,253 | 137,045 | 411,648 |
| Current portion of long-term debt | | 34,603 | 51,333 | 99,337 |
| Other liabilities | 17(b)(iii) | - | 2,065,084 | 2,962,164 |
| Liability component of convertible debentures | 15 | - | - | 6,142,716 |
| | | 9,185,737 | 11,601,664 | 23,303,466 |
| **Non-current liabilities :** | | | | |
| Capital lease obligations | 14 | 49,873 | 50,667 | 118,008 |
| Long-term debt | | - | - | 51,300 |
| Liability component of convertible debentures | 15 | 5,590,365 | 5,402,154 | - |
| Provision for closure and reclamation | 16 | 12,471,250 | 11,516,000 | 11,055,000 |
| Deferred income tax liability | | - | - | 3,258,141 |
| **Total liabilities** | | 27,297,225 | 28,570,485 | 37,785,915 |
| Equity: | | | | |
| Share capital | 17 | 114,257,612 | 114,257,612 | 89,358,455 |
| Commitment to issue shares | 19 | 150,314 | 150,314 | - |
| Equity component of convertible debentures | 15 | 1,698,516 | 1,698,516 | 830,334 |
| Share-based payments reserve | 18 | 7,664,894 | 8,282,045 | 8,305,617 |
| Transaction with owners | 19 | 100,845 | 100,845 | - |
| Retained earnings (deficit) | | (46,096,551) | (44,892,795) | 687,376 |
| Equity attributable to owners of the Company | | 77,775,630 | 79,596,537 | 99,181,782 |
| Non-controlling interest | | - | - | 3,154,839 |
| **Total equity** | | 77,775,630 | 79,596,537 | 102,336,621 |
| **TOTAL LIABILITIES AND EQUITY** | | $ 105,072,855 | $ 108,167,022 | $ 140,122,536 |

| | Notes |
|---|---|
| Commitments and contingencies | 26 |
| Subsequent events | 28 |

Approved on behalf of the Directors:

*"David Rigg"*
Director

*"Maurice Colson"*
Director

*-See accompanying notes to the Condensed Interim Consolidated Financial Statements -*

# ALEXIS MINERALS CORPORATION

## Condensed Interim Consolidated Statements of Operations and Comprehensive Income/(Loss)

**UNAUDITED**

*in Canadian dollars*

| | Notes | Three months ended March 31, 2011 | 2010 |
|---|---|---|---|
| Revenue, net of royalties | | $ 2,343,991 | $ 5,251,360 |
| Mine operating expenses | | (4,664,834) | (4,878,077) |
| Depletion and depreciation | | (119,265) | (1,206,063) |
| Total operating expenses | | (4,784,099) | (6,084,140) |
| Gross (loss) | | (2,440,108) | (832,780) |
| Expenses | | | |
| Professional, consulting and management | 18 | (829,324) | (404,636) |
| Other general and administrative expenses | | (293,865) | (425,450) |
| Other gains and (losses) | 20 | (72,805) | 210,137 |
| Finance income | | 31,686 | 3,550 |
| Finance costs | 21 | (178,865) | (68,023) |
| Impairment charge | 12 | (486,151) | - |
| **Loss before income tax** | | (4,269,432) | (1,517,202) |
| Deferred income tax recovery | | 2,065,084 | 1,320,036 |
| **Loss before non-controlling interest** | | (2,204,348) | (197,166) |
| Non-controlling interest | | - | (325) |
| **Loss and comprehensive loss for the period** | | $ (2,204,348) | $ (197,491) |
| **Loss per share** | | | |
| Basic | 22 | $ (0.01) | $ (0.00) |
| Diluted | 22 | $ (0.01) | $ (0.00) |
| Weighted average number of shares outstanding: | | | |
| Basic | 22 | 390,555,288 | 218,338,979 |
| Diluted | 22 | 390,555,288 | 218,338,979 |

# ALEXIS MINERALS CORPORATION

## Condensed Interim Consolidated Statements of Cash Flows

**UNAUDITED**

*in Canadian dollars*

| | Notes | Three months ended March 31, 2011 2011 | 2010 |
|---|---|---|---|
| **Cash provided by (used in) operating activities:** | | | |
| Net (loss) | | $ (2,204,348) | $ (197,491) |
| Items not involving cash: | | | |
| Stock-based compensation | 18 | 345,308 | 73,198 |
| Depreciation, depletion and amortization | | 119,265 | 1,206,063 |
| Unrealized (gains)/losses on marketable securities | 20 | 110,152 | (209,894) |
| Non-cash financing and accretion expense | 21 | 89,250 | 32,083 |
| Impairment charge on mineral properties | 12 | 486,151 | - |
| Non-controlling interest | | - | 325 |
| Deferred income tax recovery | | (2,065,084) | (1,320,036) |
| Working capital adjustments: | | | |
| Change in receivables | | (157,692) | (85,313) |
| Change in prepaid expenses | | (170,925) | (102,871) |
| Change in inventories | | (105,071) | (558,628) |
| Change in payables and provisions | | (35,589) | 2,463,383 |
| **Net cash provided by (used in) operating activities** | | (3,588,583) | 1,300,819 |
| **Investing activities** | | | |
| Investment in mineral properties and deferred exploration expenditures | | (3,960,990) | (7,264,882) |
| Property, plant and equipment expenditures | | (255,313) | (2,570,341) |
| Working capital adjustments related to investing activities | | (290,734) | 2,166,786 |
| Exploration tax credits received | | - | 1,979,601 |
| **Net cash provided by (used in) investing activities** | | (4,507,037) | (5,688,836) |
| **Financing activities** | | | |
| Long-term debt payments | | (16,730) | (45,454) |
| Capital lease payments | | (8,586) | (105,627) |
| **Net cash provided by (used in) financing activities** | | (25,316) | (151,081) |
| Change in cash and cash equivalents | | (8,120,936) | (4,539,098) |
| Cash and cash equivalents, beginning of the period | | 9,410,889 | 6,106,007 |
| Cash and cash equivalents, end of the period | | $ 1,289,953 | $ 1,566,909 |
| Cash and cash equivalents are comprised of: | | | |
| Cash in bank | | $ 1,274,953 | $ 1,551,909 |
| Cash equivalents | | $ 15,000 | $ 15,000 |
| **Non-cash investing and financing transactions** | | | |
| Common shares issued to acquire subsidiary | | $ - | $ 1,673,571 |
| Accretion of convertible debentures charged to mineral properties | | $ 177,112 | $ 179,108 |
| Amortization of deferred financing costs charged to mineral properties | | $ 11,099 | $ 20,775 |
| Depreciation charged to mineral properties | | $ 75,358 | $ 55,687 |
| Stock-based compensation charged to mineral properties | | $ 38,135 | $ - |
| Interest paid | | $ 211,022 | $ 132,145 |

*-See accompanying notes to the Condensed Interim Consolidated Financial Statements -*

# ALEXIS MINERALS CORPORATION

## Condensed Interim Consolidated Statements of Changes in Equity

**UNAUDITED**

*in Canadian dollars*

| | Common Shares | | 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 |
| Stock-based compensation | - | - | - | - | 383,441 | - | - | 383,441 | - | 383,441 |
| Expiry of stock options | - | - | - | - | (1,000,592) | - | 1,000,592 | - | - | - |
| Loss for the period | - | - | - | - | - | - | (2,204,348) | (2,204,348) | - | (2,204,348) |
| **Balance, March 31, 2011** | **390,555,288** | **114,257,612** | **150,314** | **1,698,516** | **7,664,894** | **100,845** | **(46,096,551)** | **77,775,630** | **-** | **77,775,630** |
| | | | | | | | | | | |
| 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 |
| Shares issued to acquire subsidiary | 4,044,463 | 1,673,571 | - | - | - | 207,655 | - | 1,881,226 | (1,900,740) | (19,514) |
| Expiry of warrants and stock options | - | - | - | - | (1,723,843) | - | 1,723,843 | - | - | - |
| Stock-based compensation | - | - | - | - | 73,198 | - | | 73,198 | - | 73,198 |
| Future tax effects of share issue costs | - | (89,800) | - | - | - | - | 89,800 | - | - | - |
| Premium on flow-through shares | - | - | - | - | - | - | (2,475,872) | (2,475,872) | - | (2,475,872) |
| Adjustment | (22) | - | - | - | - | - | - | - | - | - |
| Loss for the period | - | - | - | - | - | - | (197,491) | (197,491) | - | (197,491) |
| **Balance, March 31, 2010** | **219,013,056** | **90,942,226** | **-** | **830,334** | **6,654,972** | **207,655** | **(172,344)** | **98,462,843** | **1,254,099** | **99,716,942** |
| | | | | | | | | | | |
| 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 or 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 options | - | - | - | - | (2,727,917) | - | 2,727,917 | - | - | - |
| 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 |
| Stock-based compensation | - | - | - | - | 242,833 | - | - | 242,833 | - | 242,833 |
| Shares issued in lieu of interest payment | 1,400,546 | 339,107 | - | - | - | - | - | 339,107 | - | 339,107 |
| Share issue costs | - | (2,463,592) | - | - | - | - | - | (2,463,592) | - | (2,463,592) |
| Tax effect of share issue costs | - | (1,111,600) | - | - | - | - | - | (1,111,600) | - | (1,111,600) |
| Premium on flow-through shares | - | (2,065,084) | - | - | - | - | - | (2,065,084) | - | (2,065,084) |
| Adjustment | (23) | - | - | - | - | - | - | - | - | - |
| Loss for the period | - | - | - | - | - | - | (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 Condensed Interim 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. The unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2011 were reviewed, approved and authorized for issue by the Board of Directors on June 14, 2011.

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

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, 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 condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting and by IFRS 1, First-time Adoption of IFRS. These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

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

As these are the Company's first set of condensed interim consolidated financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2011 interim filings beyond the first quarter of 2011, the Company may not provide the same amount of disclosure as included in the March 31, 2011 Condensed Interim Consolidated Financial Statements under IFRS. In 2012 and beyond, the reader will be able to rely on the annual consolidated financial statements, which will be prepared in accordance with IFRS.

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

## 3. Future accounting changes

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

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 9.

## 4. Principles of consolidation

The condensed interim 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.

*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 rather than included in the acquisition purchase price;
- 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 in consolidation. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised 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 these condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

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

- Asset carrying values and impairment charges
- Estimation of asset lives
- Determination of ore reserve estimates
- Recognition of deferred taxes
- Capitalization of exploration and evaluation costs
- Contingencies
- Acquisitions
- Determination of economic viability of a project
- Commencement of commercial production

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

- Asset carrying values and impairment charges
- Estimation of close down and restoration costs and the timing of expenditures
- Estimation of environmental cleanup and the timing of expenditure and related accretion
- Contingencies
- Inventory valuation
- Tax credits receivable
- Share-based payments
- Depletion, depreciation and amortization

## 6. Significant accounting policies

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

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

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

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

*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 recognised 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 recognised 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 recognised 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 recognised 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 condensed 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 recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

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

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

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

*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 exploration and evaluation. Exploration and evaluation expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

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

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

*Development*

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

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

**6. Significant accounting policies (continued)**

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/amortisation*
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/amortisation*
Buildings 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
- Vehicles and mobile equipment – 3 to 5 years
- Computer and 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 recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation/amortisation 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.

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 or other Company's of 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.

**6. Significant accounting policies (continued)**

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

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

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

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

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

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

The Company 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 recognised in the consolidated statement of operations. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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

*Derecognition*
A financial asset is derecognised when:

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

**6. Significant accounting policies (continued)**

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

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

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

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

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

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

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

The Company's financial liabilities include trade and other payables, long-term debt and capital leases.

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

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

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

**6. Significant accounting policies (continued)**

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

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

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

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

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

*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 recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised 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 amortised 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.

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 realisable value. Net realisable 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 amortisation, incurred in converting materials into finished goods.

Materials and supplies are valued at the lower of cost or net realisable 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.

### 6. Significant accounting policies (continued)

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

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

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

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

*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 future tax liability is recognized for the premium paid by the investors and is then recognized as a future income tax liability in the period of renunciation if the Company has sufficient unrealized tax losses and deductions.

*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

| | March 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Taxes receivable | $ 696,686 | $ 537,697 | $ 2,038,739 |
| Interest receivable | 41,060 | 23,996 | - |
| Other receivables | 77,907 | 96,268 | 44,063 |
| | $ 815,653 | $ 657,961 | $ 2,082,802 |

## 8. Tax credit receivable

| | | |
|---|---|---|
| Balance at 1 January 2010 | $ | 7,465,197 |
| Tax credits received | | (4,222,964) |
| Accrued tax credits receivable for the period | | 3,099,948 |
| Adjustments to tax credits accrued | | 385,555 |
| Balance at 31 December 2010 | | 6,727,736 |
| Tax credits received | | - |
| Accrued tax credits receivable for the period | | 164,449 |
| Adjustments to tax credits accrued | | (1,290,004) |
| **Balance at 31 March 2011** | **$** | **5,602,181** |

The Company has accrued approximately $164,000 in government assistance receivable related to eligible expenditures in the province of Québec for the three months ended March 31, 2011. An amount of approximately $2,800,000 in government assistance is accrued for the year ended December 31, 2010, $680,000 is accrued for the year ended December 31, 2009 and $1,900,000 is accrued for the year ended December 31, 2008. 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 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

| | | March 31, 2011 | | December 31, 2010 | | January 1, 2010 |
|---|---|---|---|---|---|---|
| Materials and supplies | $ | 733,190 | $ | 643,753 | $ | 426,494 |
| Stockpiled ore | | 393,615 | | 239,035 | | 4,354,454 |
| Gold brick or doré bars | | 795,667 | | 939,579 | | 1,386,735 |
| | $ | 1,922,472 | $ | 1,822,367 | $ | 6,167,683 |

The amount of inventories recognized as an expense during the three months ended 31 March 2011 is $4,784,099 (March 31, 2010: $6,084,140).

All inventory is carried at the lower of cost and net realizable value. Material and supplies inventory is recorded at cost as at March 31, 2011, December 31, 2010 and January 1, 2010. As at March 31, 2011, $393,615 (December 31, 2010: $239,035, January 1, 2010: $700,000) in stockpiled ore and $795,667 (December 31, 2010: $939,579; January 1, 2010: $1,300,000) in finished gold brick and doré bars is recorded at net realizable value, and the remaining balance if any is recorded at cost.

## 10. 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").

| | | March 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 | $ | 300,324 | 207,072 | $ | 300,736 | 207,072 | $ | - |
| Centurion Minerals, Ltd. | FVTPL | 150,000 | $ | 150,000 | 150,000 | $ | 229,500 | 150,000 | $ | 100,500 |
| Takara Resources, Inc. | FVTPL | 336,000 | $ | 80,640 | 336,000 | $ | 110,880 | 336,000 | $ | 21,840 |
| | | | **$** | **530,964** | | **$** | **641,116** | | **$** | **122,340** |

## 10. Investments (continued)

The Company has recognized an unrealized loss on their FVTPL investments of $110,152 for the three months ended March 31, 2011 (March 31, 2010: a gain of $209,894).

Subsequent to the end of the quarter, the Company sold its shares of Minera IRL Ltd. for net proceeds of $270,364. As well, 65,000 shares of Centurion Minerals, Ltd. were sold for net proceeds of $53,901.

## 11. Property, plant and equipment

| | Office equipment and furniture | Machinery and equipment | Mobile equipment | Buildings | Mill | TOTAL |
|---|---|---|---|---|---|---|
| Cost as at 1 January 2010 | $ 172,795 | $ 7,206,909 | $ 4,759,126 | $ 2,988,283 | $ 8,635,392 | $ 23,762,505 |
| Additions | 73,165 | 505,227 | 128,957 | 70,957 | 2,901,241 | 3,679,547 |
| Disposals | - | (233,710) | - | - | - | (233,710) |
| Change in rehabilitation provision | - | - | - | - | - | - |
| Cost as at 31 December 2010 | 245,960 | 7,478,426 | 4,888,083 | 3,059,240 | 11,536,633 | 27,208,342 |
| Additions | 2,475 | 66,349 | 2,538 | - | 183,952 | 255,314 |
| Disposals | - | - | - | - | - | - |
| Change in rehabilitation provision | - | - | - | - | 237,000 | 237,000 |
| **Cost as at 31 March 2011** | **$ 248,435** | **$ 7,544,775** | **$ 4,890,621** | **$ 3,059,240** | **$ 11,957,585** | **$ 27,700,656** |
| Accumulated Depreciation, depletion and impairment as at 1 January 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) | (7,506,301) | (8,522,213) |
| Disposals | - | 112,602 | - | - | - | 112,602 |
| Depletion and impairment as at 31 December 2010 | (180,684) | (1,998,376) | (2,540,843) | (884,257) | (8,461,170) | (14,065,330) |
| Charge for the period | (8,219) | (32,807) | (92,946) | (30,334) | (7,117) | (171,423) |
| Provision for impairment | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| **Depletion and impairment as at 31 March 2011** | **$ (188,903)** | **$ (2,031,183)** | **$ (2,633,789)** | **$ (914,591)** | **$ (8,468,287)** | **$ (14,236,753)** |
| Net book value as at 1 January 2010 | $ 42,936 | $ 6,310,708 | $ 3,066,858 | $ 2,726,262 | $ 8,635,392 | $ 20,782,156 |
| Net book value as at 31 December 2010 | $ 65,276 | $ 5,480,050 | $ 2,347,240 | $ 2,174,983 | $ 3,075,463 | $ 13,143,012 |
| **Net book value as at 31 March 2011** | **$ 59,532** | **$ 5,513,592** | **$ 2,256,832** | **$ 2,144,649** | **$ 3,489,298** | **$ 13,463,903** |

During the three months ended March 31, 2011, the Company expensed $100,510 in depreciation to the statement of operations (March 31, 2010: $253,465) and charged $75,358 to mineral properties and deferred exploration expenditures (March 31, 2010: $55,687).

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 $7,117 has been recorded for the three months ended March 31, 2011 (March 31, 2010: $nil) . The Company's newly acquired Snow Lake mill is also included in property, plant and equipment and is currently on care and maintenance. No amortization expense has been recorded in relation to the Snow Lake mill.

## 12. 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 1 January 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 | 1,294,398 | 1,020,204 | 7,736,587 | 1,635,287 | 1,051,270 | 7,458,968 | 50,390 | 20,247,104 |
| Pre-production revenues | - | - | (3,075,951) | - | - | (794,615) | - | (3,870,566) |
| Change in rehabilitation provision | 10,750 | - | 750 | - | - | 469,999 | - | 481,499 |
| Cost as at 31 December 2010 | 32,162,608 | 14,627,352 | 17,539,091 | 11,252,730 | 6,659,260 | 32,332,432 | 50,390 | 114,623,863 |
| Additions | 1,859,381 | 355,947 | 338,905 | 635,515 | 279,778 | 1,858,469 | 60,254 | 5,388,249 |
| Change in rehabilitation provision | 45,000 | - | 26,000 | - | - | 558,000 | - | 629,000 |
| **Cost as at 31 March 2011** | **$ 34,066,989** | **$ 14,983,299** | **$ 17,903,996** | **$ 11,888,245** | **$ 6,939,038** | **$ 34,748,901** | **$ 110,644** | **$ 120,641,112** |
| Accumulated Depreciation, depletion and impairment as at 1 January 2010 | $ (6,409,283) | $ - | $ - | $ - | $ - | $ - | $ - | $ (6,409,283) |
| Charge for the year | (4,612,407) | - | - | - | - | - | - | (4,612,407) |
| Provision for impairment | (21,140,918) | - | (12,927,473) | - | - | - | - | (34,068,391) |
| Disposals | | | | | | | | - |
| Depletion and impairment as at 31 December 2010 | (32,162,608) | - | (12,927,473) | - | - | - | - | (45,090,081) |
| Charge for the period | (18,235) | - | - | - | - | - | - | (18,235) |
| Provision for impairment | (486,151) | - | - | - | - | - | - | (486,151) |
| Disposals | - | - | - | - | - | - | - | - |
| **Depletion and impairment as at 31 March 2011** | **$ (32,666,994)** | **$ -** | **$ (12,927,473)** | **$ -** | **$ -** | **$ -** | **$ -** | **$ (45,594,467)** |
| Net book value as at 1 January 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 31 December 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 31 March 2011** | **$ 1,399,995** | **$ 14,983,299** | **$ 4,976,523** | **$ 11,888,245** | **$ 6,939,038** | **$ 34,748,901** | **$ 110,644** | **$ 75,046,645** |

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 22.

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

During the fourth quarter of 2010, 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 as at the quarter ended March 31, 2011, and wrote down the property by $486,151.

Rouyn Noranda Properties, Québec

Pursuant to the June 15, 2004 binding letter of intent with Falconbridge Ltd., now referred to as Xstrata Copper ("Xstrata"), a business unit of Falconbridge Ltd., the Company has a 50% interest in all of Xstrata's properties in the prospective Rouyn-Noranda Base Metal and Gold Camp. See Note 27.

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%.

Subsequent to the end of the quarter, the Company entered into an agreement with Xstrata to assume a 100% interest in the joint venture. See Note 28.

Lac Pelletier Property, Rouyn-Noranda, Québec

**12. Mineral properties and deferred exploration expenditures (continued)**

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. The Company has been advised that Thundermin intends to initiate an arbitration pursuant to the Option Agreement in the absence of a resolution to this matter.

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 the fourth quarter of 2010, the Company wrote down the value of the Lac Pelletier property by an amount of $12,824,723 to reflect an impairment in value.

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 of 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 the following schedule:

| | Commitment | | |
|---|---|---|---|
| | Cash Payment ($) | Expenditures ($) | |
| November 19, 2010 | 50,000 | - | **Paid December 2010 |
| November 19, 2011 | 50,000 | 200,000 | |
| 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 | |

### 12. Mineral properties and deferred exploration expenditures (continued)

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 March 31, 2011, the Company has spent $48,619 in exploration expenditures of the required $200,000 due November 2011.

### 13. Accounts payable

| | | March 31, 2011 | | December 31, 2010 | | January 1, 2010 |
|---|---|---|---|---|---|---|
| Mining and exploration suppliers | $ | 6,256,015 | $ | 6,129,271 | $ | 11,574,833 |
| Corporate payables | | 650,348 | | 1,031,923 | | 583,212 |
| Payroll liabilities | | 470,446 | | 589,304 | | 776,222 |
| Royalties payable | | 1,645,072 | | 1,597,704 | | 753,334 |
| | $ | 9,021,881 | $ | 9,348,202 | $ | 13,687,601 |

### 14. Capital lease obligations

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

As at March 31, 2011, the future minimum lease payments under the capital lease arrangements were:

| Capital lease obligations | |
|---|---|
| December 2011 | 111,210 |
| December 2012 | 78,033 |
| | 189,243 |
| Less: Amounts representing interest | (10,117) |
| | 179,126 |
| Less: Current portion | 129,253 |
| Long-term portion | 49,873 |

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

### 15. 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. Pursuant to the terms of the private placement, the Company issued 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, any time after 12 months from the date of closing, into common shares of the Company at an exercise price of $0.75 for the second year, $0.825 for the third year and $0.9075 for the fourth year (the "Conversion Prices"). 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.

**15. Convertible debentures (continued)**

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. Accretion of this discount is being capitalized to the Lac Herbin project as a financing cost. An amount of $140,465 was recorded as capitalized financing charges for the three months ended March 31, 2011 (March 31, 2010: $151,266).

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 were deferred and are being accreted over the term of the Debentures. For the three months ended March 31, 2011, $11,099 (March 31, 2010 - $20,777) in deferred financing charges were accreted to mineral properties.

Subsequent to March 31, 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 due 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.

b) As a result of the acquisition of Garson, the Company is carrying a convertible debenture with a face value of $2,150,000. This debenture has a coupon rate of 10%, and interest is compounded monthly and paid quarterly in cash. The 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. For the three months ended March 31, 2011, accretion expense related to this debenture totalled $36,647 (March 31, 2010: $27,842) and was capitalized to the Snow Lake project. As well, interest paid against this debenture of $54,199 for the three months ended March 31, 2011 (March 31, 2010: $54,199) was also capitalized to the project.

## 16. 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 1 January 2010 | $ | 11,055,000 |
| Additional provisions recognised | | - |
| Reductions arising from payments/other sacrifices of future economic benefits | | - |
| 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 31 December 2010 | | 11,516,000 |
| Additional provisions recognised | | - |
| Reductions arising from payments/other sacrifices of future economic benefits | | - |
| Adjustments resulting from re-measurement or settlement without cost | | - |
| Unwinding of discount and effect of changes in the discount rate | | 955,250 |
| **Balance at 31 March 2011** | **$** | **12,471,250** |

The Company has estimated its total provision for closure and reclamation to be $12,471,250 at March 31, 2011 based on a total future liability of approximately $12,235,000 and at an inflation rate of 3.3% and a discount ranging between 2.5% and 3.08%. Reclamation is expected to occur between 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 HSBC floating rates of interest. The GIC's can be redeemed prior to maturity without penalty.

## 17. Issued capital

a) As at March 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** | **$** | **89,358,455** |
| Public offering (i) | 95,833,333 | | 14,375,000 |
| Private placement (ii) | 50,774,998 | | 12,186,000 |
| Warrant and broker warrant valuation (i) | - | | (1,650,059) |
| Exercise of broker warrants | 2,000,000 | | 300,000 |
| Broker warrant exercise -- valuation reallocation | - | | 127,600 |
| Shares issued for acquisition of subsidiary | 6,550,200 | | 2,274,544 |
| Shares issued to settle liabilities (i) | 19,027,619 | | 2,854,143 |
| Value of warrants attached to shares issued to settle liabilities (i) | - | | (266,902) |
| Shares issued for payment of interest (Note 12(a)) | 1,400,546 | | 339,107 |
| Cost of issue | - | | (2,463,592) |
| Tax effect of cost of issue | - | | (1,111,600) |
| Premium on flow-through shares (iii) | - | | (2,065,084) |
| Adjustment | (23) | | - |
| **Balance, December 31, 2010 and March 31, 2011** | **390,555,288** | **$** | **114,257,612** |

### 17. Issued capital (continued)

(i) 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 value of the warrants was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield: 0%; expected volatility: 70.99%; 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 value of the broker warrants was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield: 0%; expected volatility: 77.52%; risk-free interest rate: 1.55%; and expected life: approximately 2 years. Additional issue costs included legal fees and other disbursements.

(ii) 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.

(iii) 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.

### 18. 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 | - | - | **-** | (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 | - | - | | - | - | **-** | **-** |
| **December 31, 2010** | **14,940,630** | **$ 0.58** | **$ 4,876,967** | **82,271,650** | **$ 0.42** | **$ 3,405,078** | **$ 8,282,045** |
| Granted | 3,115,000 | 0.19 | **383,443** | - | - | **-** | **383,443** |
| Exercised | - | - | **-** | - | - | **-** | **-** |
| Expired | (4,474,118) | 0.58 | **(899,322)** | (3,288,335) | 0.35 | **(101,272)** | **(1,000,594)** |
| Forfeited | (281,250) | 0.43 | **-** | - | - | **-** | **-** |
| **March 31, 2011** | **13,300,262** | **$ 0.53** | **$ 4,361,088** | **78,983,315** | **$ 0.42** | **$ 3,303,806** | **$ 7,664,894** |

### 18. 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 three months ended March 31, 2011, 3,115,000 stock options (March 31, 2010: 200,000) were granted to directors, officers, and employees of the Company with a weighted-average grant date fair value of $0.12 per option (March 31, 2010: $0.23). These options vest immediately. Stock-based compensation expense of $345,308 (2009: $73,198) relating to these options and others that vested during the quarter was recorded in professional, consulting and management fees, while $38,135 (March 31, 2010: $nil) was charged 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 during the current and prior reporting periods:

STOCK OPTIONS:

| No. outstanding | No. exercisable | Grant date | Expiry date | Exercise price | Fair value at grant date | Grant date share price | Expected volatility | Expected life (yrs) | Expected Dividend Yield | Risk-free interest rate |
|---|---|---|---|---|---|---|---|---|---|---|
| 100,000 | 100,000 | 1-Nov-06 | 1-Nov-11 | $ 0.52 | $ 33,900 | $ 0.52 | 78% | 5.00 | 0% | 0.42% |
| 95,000 | 95,000 | 8-Dec-06 | 8-Dec-11 | $ 0.50 | $ 30,970 | $ 0.50 | 78% | 5.00 | 0% | 0.51% |
| 25,000 | 25,000 | 5-Mar-07 | 5-Mar-12 | $ 0.91 | $ 15,075 | $ 0.91 | 80% | 5.00 | 0% | 3.95% |
| 100,000 | 100,000 | 9-Apr-07 | 9-Apr-12 | $ 1.14 | $ 75,800 | $ 1.14 | 80% | 5.00 | 0% | 4.00% |
| 2,937,500 | 2,937,500 | 27-Aug-07 | 27-Aug-12 | $ 0.79 | $ 1,647,938 | $ 0.79 | 88% | 5.00 | 0% | 4.30% |
| 400,000 | 400,000 | 17-Sep-07 | 17-Sep-12 | $ 0.84 | $ 238,400 | $ 0.84 | 88% | 5.00 | 0% | 4.30% |
| 7,500 | 7,500 | 11-Oct-07 | 11-Oct-12 | $ 0.94 | $ 5,243 | $ 0.94 | 95% | 5.00 | 0% | 4.40% |
| 155,000 | 155,000 | 19-Oct-07 | 19-Oct-12 | $ 0.91 | $ 104,780 | $ 0.91 | 95% | 5.00 | 0% | 4.30% |
| 2,500 | 2,500 | 1-Nov-07 | 1-Nov-12 | $ 0.89 | $ 1,650 | $ 0.89 | 95% | 5.00 | 0% | 4.20% |
| 100,000 | 100,000 | 30-Jan-08 | 30-Jan-13 | $ 0.88 | $ 61,100 | $ 0.88 | 86% | 5.00 | 0% | 3.50% |
| 2,178,500 | 2,178,500 | 4-Aug-08 | 5-Aug-13 | $ 0.49 | $ 701,477 | $ 0.49 | 80% | 5.00 | 0% | 3.20% |
| 15,000 | 15,000 | 14-Jul-09 | 14-Jul-14 | $ 0.26 | $ 3,900 | $ 0.41 | 77% | 5.00 | 0% | 2.50% |
| 3,496,250 | 3,496,250 | 21-Dec-09 | 21-Dec-14 | $ 0.43 | $ 974,126 | $ 0.43 | 76% | 5.00 | 0% | 1.35% |
| 200,000 | 125,000 | 23-Feb-10 | 23-Feb-15 | $ 0.40 | $ 42,945 | $ 0.40 | 69% | 5.00 | 0% | 2.50% |
| 108,750 | 108,750 | 30-Apr-10 | 4-Feb-14 | $ 0.35 | $ 16,500 | $ 0.29 | 76% | 3.80 | 0% | 2.42% |
| 15,768 | 15,768 | 30-Apr-10 | 4-Jan-12 | $ 0.97 | $ - | $ 0.29 | 79% | 1.68 | 0% | 1.90% |
| 21,750 | 21,750 | 30-Apr-10 | 4-Jan-12 | $ 1.03 | $ - | $ 0.29 | 79% | 1.68 | 0% | 1.90% |
| 9,244 | 9,244 | 30-Apr-10 | 24-Aug-12 | $ 1.03 | $ - | $ 0.29 | 73% | 1.90 | 0% | 1.90% |
| 177,500 | 140,000 | 9-Jun-10 | 9-Jun-15 | $ 0.23 | $ 25,601 | $ 0.24 | 78% | 5.00 | 0% | 2.65% |
| 50,000 | 50,000 | 4-Nov-10 | 4-Nov-15 | $ 0.22 | $ 7,365 | $ 0.23 | 77% | 5.00 | 0% | 1.98% |
| 2,000,000 | 2,000,000 | 10-Jan-11 | 10-Jan-16 | $ 0.20 | $ 254,200 | $ 0.20 | 77% | 5.00 | 0% | 2.46% |
| 1,105,000 | 1,105,000 | 10-Feb-11 | 10-Feb-16 | $ 0.17 | $ 120,118 | $ 0.17 | 77% | 5.00 | 0% | 2.75% |
| 13,300,262 | 13,187,762 | | | | $ 4,361,088 | | | | | |

### 18. Share-based payments reserve (continued)

WARRANTS AND BROKER WARRANTS:

| No. outstanding | No. exercisable | Grant date | Expiry date | Exercise price | Fair value at grant date | Grant date share price | Expected volatility | Expected life (yrs) | Expected Dividend Yield | Risk-free interest rate |
|---|---|---|---|---|---|---|---|---|---|---|
| 5,828,000 | 5,828,000 | 9-Jul-09 | 9-Jul-11 | $ 0.70 | $ 752,600 | $ 0.50 | 73% | 2.00 | 0% | 1.20% |
| 553,842 | 553,842 | 30-Apr-10 | 26-Jun-11 | $ 0.41 | $ 17,335 | $ 0.29 | 46% | 1.16 | 0% | 1.26% |
| 5,539,000 | 5,539,000 | 30-Apr-10 | 10-Sep-11 | $ 0.41 | $ 225,991 | $ 0.29 | 55% | 1.36 | 0% | 1.26% |
| 398,750 | 398,750 | 30-Apr-10 | 10-Sep-11 | $ 0.41 | $ 29,427 | $ 0.29 | 41% | 0.36 | 0% | 0.39% |
| 295,220 | 295,220 | 30-Apr-10 | 10-Sep-11 | $ 0.35 | $ 38,792 | $ 0.29 | 41% | 0.36 | 0% | 0.39% |
| 4,000,000 | 4,000,000 | 15-Jul-10 | 15-Jul-12 | $ 0.50 | $ 107,200 | $ 0.17 | 78% | 2.00 | 0% | 1.66% |
| 57,430,477 | 57,430,477 | 2-Sep-10 | 2-Sep-13 | $ 0.40 | $ 1,611,161 | $ 0.14 | 71% | 3.00 | 0% | 1.55% |
| 447,000 | 447,000 | 9-Jul-09 | 9-Jul-11 | $ 0.56 | $ 57,700 | $ 0.50 | 73% | 2.00 | 0% | 1.20% |
| 699,360 | 699,360 | 9-Jul-09 | 9-Jul-11 | $ 0.50 | $ 150,400 | $ 0.50 | 73% | 2.00 | 0% | 1.20% |
| 1,000,000 | 1,000,000 | 23-Dec-09 | 23-Jun-11 | $ 0.50 | $ 135,000 | $ 0.42 | 78% | 1.50 | 0% | 1.37% |
| 2,791,666 | 2,791,666 | 2-Sep-10 | 2-Sep-12 | $ 0.15 | $ 178,200 | $ 0.15 | 78% | 2.00 | 0% | 1.55% |
| 78,983,315 | 78,983,315 | | | | $ 3,303,806 | | | | | |

### 19. Transactions with owners

The Company acquired the non-controlling interest of Garson on April 29, 2010 through the issuance of shares (see Note 17(b)). As at December 31, 2010 and March 31, 2011, some shareholders had not yet tendered their Garson shares, and consequently an amount of $150,314 is recorded as a commitment to issue shares. The consideration paid was applied against the non-controlling interest and the residual amount of $100,845 was recorded to transactions with owners.

### 20. Other gains and losses

| | Three months ended March 31 2011 | 2010 |
|---|---|---|
| Net foreign exchange gains | $ 43,324 | $ 20,082 |
| General exploration expenditures | (5,977) | - |
| Transaction costs on acquisition of Garson | - | (19,839) |
| Net gain/(loss) arising on financial assets designated as FVTPL | (110,152) | 209,894 |
| | $ (72,805) | $ 210,137 |

### 21. Finance costs

| | Three months ended March 31 2011 | 2010 |
|---|---|---|
| Flow-through interest penalty | $ (43,764) | $ (29,870) |
| Accretion of reclamation provision | (89,250) | (28,750) |
| Other interest expense | (45,851) | (9,403) |
| Total interest expense for financial liabilities not classified as FVTPL | $ (178,865) | $ (68,023) |

### 22. Loss per share

Total shares issuable from options, warrants or convertible debentures excluded from the computation of diluted loss per share because their effect would be anti-dilutive for the period ended March 31, 2011 were 13,300,262 (March 31, 2010: 14,038,000), 78,983,315 (March 31, 2010: 8,574,360) and 14,500,000 (March 31, 2010: 4,639,125) respectively.

## 23. Financial instruments

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

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

| March 31, 2011 | Cash, loans and receivables | Assets/liabilities at fair value through profit or loss | TOTAL |
|---|---|---|---|
| Cash and cash equivalents | $ 1,289,953 | $ - | $ 1,289,953 |
| Amounts receivables | 815,653 | - | 815,653 |
| Investments | - | 530,964 | 530,964 |
| Accounts payable and accrued liabilities | 9,021,881 | - | 9,021,881 |
| Capital leases, current and long-term | 179,126 | - | 179,126 |
| Debt, current and long term | 34,603 | - | 34,603 |
| Liability component of convertible debenture | 5,590,365 | - | 5,590,365 |

| December 31, 2010 | Cash, loans and receivables | Assets/liabilities at fair value through profit or loss | TOTAL |
|---|---|---|---|
| Cash and cash equivalents | $ 9,410,889 | $ - | $ 9,410,889 |
| Amounts receivables | 657,961 | - | 657,961 |
| Investments | - | 641,116 | 641,116 |
| Accounts payable and accrued liabilities | 9,348,202 | - | 9,348,202 |
| Capital 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 | Assets/liabilities at fair value through profit or loss | TOTAL |
|---|---|---|---|
| Cash and cash equivalents | $ 6,106,007 | $ - | $ 6,106,007 |
| Amounts receivables | 2,082,802 | - | 2,082,802 |
| Investments | - | 122,340 | 122,340 |
| Accounts payable and accrued liabilities | 13,687,601 | - | 13,687,601 |
| Capital 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 |

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

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.

**23. Financial instruments (continued)**

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 March 31, 2011, the Company had a cash and cash equivalents balance of $1,289,953 (December 31, 2010 -- $9,410,889; January 1, 2010 - $6,106,007) to settle current liabilities of $9,185,737 (December 31, 2010 -- $9,536,580 January 1, 2010 - $20,341,302). Approximately $6,870,000 of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(a) 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.

(b) 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.

(c) 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.

(d) 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.

There were no significant changes to credit risk, liquidity risk, market risk and securities risk during the three months ended March 31, 2011 compared to March 31, 2010.

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 March 31, 2011, 10% fluctuations in the exchange rate from US$ to CDN$ will generate increases or decreases in value of approximately $80,000.
- Based on the gold brick and doré inventory held by the Company at March 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 $56,000.
- 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.

## 24. 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 three months ended March 31, 2011 and 2010. The Company and its subsidiaries are not subject to externally imposed capital requirements.

## 25. Related party disclosures

The condensed interim consolidated financial statements include the financial statements of the Company, its 100% wholly-owned subsidiary, Garson, and a 50% interest in a joint venture project.

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

| | Sales of goods and services<br>Three months ended March 31<br>2011 | <br><br>2010 | Purchases of goods and services<br>Three months ended March 31<br>2011 | <br><br>2010 |
|---|---|---|---|---|
| 2227929 Ontario Inc. | $ - | $ - | $ 82,036 | $ 80,443 |
| Forbes & Manhattan, Inc. | - | - | 77,527 | 128,912 |

The Company shares office space with other companies who may have similar officers or directors. The costs associated with this space are administered by 2227929 Ontario Inc. Mr. Stan Bharti, a director of the Company, is an officer of Forbes & Manhattan, Inc. An administration fee of $5,000 per month is charged by Forbes & Manhattan, Inc. 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<br>March 31, 2011 | <br>December 31, 2010 | <br>January 1, 2010 | Amounts owed to related parties<br>March 31, 2011 | <br>December 31, 2010 | <br>January 1, 2010 |
|---|---|---|---|---|---|---|
| 2227929 Ontario Inc. | $ 20,581 | $ 51,252 | $ 88,900 | $ - | $ - | $ - |
| Forbes & Manhattan, Inc. | $ - | $ - | $ - | $ 477,243 | $ 526,106 | $ 253,325 |

The amounts outstanding are unsecured. No guarantees have been given or received. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties. Subsequent to March 31, 2011, the Company issued shares to settle the amount owed to Forbes & Manhattan, Inc. This amount related to outstanding royalties payable.

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

| | Three months ended March 31<br>2011 | <br>2010 |
|---|---|---|
| Short-term benefits | $ 271,000 | $ 228,580 |
| Share-based payments | 254,200 | - |

**25. Related party disclosures (continued)**

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

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

**26. Commitments and contingencies**

(a) The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $3,300,000 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 $800,000, 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 March 31, 2011, the Company has spent approximately $2,848,000 and is required to spend an additional $9,338,000 by December 31, 2011.

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.

**27. Interest in joint venture**

The Company is party to a 50% joint venture interest in the Rouyn Properties. Xstrata is the operator of this joint venture. The Company's proportionate share of the assets, liabilities and cash flows of this joint venture included in these consolidated financial statements are as follows:

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| | $ | $ |
| Current assets | - | - |
| Mineral properties and deferred exploration expenditures | 999,008 | 994,497 |
| Current liabilities | (4,511) | (12,041) |
| Revenues | - | - |
| Expenses | - | - |
| Cash flows from operating activities | - | - |
| Cash flows from investing activities | (12,041) | (982,456) |

## 28. Subsequent events

In April 2011, the Company signed an agreement with Xstrata to assume a 100% interest in the joint-venture properties. On closing the Company would pay Xstrata $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 Deposit; 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.

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. In total, the Company raised gross proceeds of $20,125,000. Commissions of 7% were charged by the underwriters with respect to this financing.

## 29. Transition to IFRS

The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these condensed interim consolidated financial statements were prepared as described in note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

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

**IFRS Exemption Options**

1. *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.

**29. Transition to IFRS (continued)**

*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 income and cash flows for prior periods. The changes made to the consolidated statements of financial position and consolidated statements of operations have resulted in reclassifications of various amounts on the consolidated statements of cash flows.

**Changes in accounting policies:**

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

**a) Share-based compensation**

IFRS 2 is effective for the Company as of 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.

**29. Transition to IFRS (continued)**

**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 to 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 increase retained earnings by $11,350,235 at December 31, 2010 (January 1, 2010: $8,622,318).

**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; March 31, 2010: $7,672,350). The change impacted the carrying value of mineral properties and deferred exploration expenditures by $7,221,000 (January 1, 2010: $6,573,135; March 31, 2010: $6,801,855), and the value of property, plant and equipment by $nil (January 1, 2010: $814,000; March 31, 2010: $870,500). Depletion, depreciation and amortization of mine properties was not impacted as at January 1, 2010. The accretion (or unwinding of the discount) of the provision for rehabilitation is presented as a finance cost under IFRS. Accretion expense decreased by $356,920 during the year ended December 31, 2010 as a result of these changes (January 1, 2010: $nil; March 31, 2010: $nil).

**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 the Transition Date to the Statement of Financial Position at January 1, 2010, $2,962,164 was recorded as a liability, $9,699,228 was credited to share capital and $6,737,064 was debited to retained earnings. As at December 31, 2010, $2,065,084 was recorded as a liability, $9,303,972 was credit to share capital and $7,238,488 was debited to retained earnings. As at March 31, 2010, $5,544,028 was credited to share capital and the same was debited to retained earnings.

**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.

**29. Transition to IFRS (continued)**

**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 Gold**

**Canadian GAAP –** The completion of the acquisition of Garson Gold 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 (March 31, 2010: $770,294)
- A decrease in property, plant and equipment of $705,686 (March 31, 2010: $425,605)
- A decrease in the liability component of convertible debenture of $48,529 (March 31, 2010: $29,268)
- A decrease in deferred income tax liability of $nil (March 31, 2010: $186,141)
- Transaction with owners of $100,845 (March 31, 2010: $207,655)
- A decrease in deficit of $18,506 (March 31, 2010: increase of $19,839).

**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 $966,359 to mineral properties and deferred exploration expenditures at December 31, 2010 (March 31, 2010: $254,082) crediting financing costs on the statement of operations. At December 31, 2010, $609,439 was then written off as an impairment charge.

## 29. 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 | 29.b | 19,968,156 | 814,000 | 20,782,156 |
| Mineral propertes and deferred exploration expenditures | 29.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 | 29.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 | 29.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 | 29.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 | 29.a | 16,927,935 | (8,622,318) | 8,305,617 |
| Transaction with owners | | - | - | - |
| Retained earnings (deficit) | 29.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 |

### 29. Transition to IFRS (continued)

**Reconciliation of Consolidated Statement of Financial Position as of March 31, 2010**

| Canadian GAAP accounts | | Canadian GAAP Balances | IFRS Adjustments | IFRS Balance |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | | $ 1,566,909 | $ - | $ 1,566,909 |
| Amounts receivable | | 2,168,115 | - | 2,168,115 |
| Tax credits receivable | | 6,147,363 | - | 6,147,363 |
| Inventories | | 7,177,839 | - | 7,177,839 |
| Prepaid expenses | | 375,679 | - | 375,679 |
| Investments | | 332,234 | - | 332,234 |
| | | 17,768,139 | - | 17,768,139 |
| **Non-current assets** | | | | |
| Restricted cash equivalents | | 5,767,000 | - | 5,767,000 |
| Property, plant and equipment | 29.b,e | 22,560,058 | 444,895 | 23,004,953 |
| Mineral propertes and deferred exploration expenditures | 29.b,e,f | 88,997,616 | 7,826,231 | 96,823,847 |
| **Total assets** | | $ 135,092,813 | $ 8,271,126 | $ 143,363,939 |
| **Liabilities** | | | | |
| **Current liabilites** | | | | |
| Accounts payable | | 18,317,770 | - | 18,317,770 |
| Current portion of capital lease obligations | | 349,595 | - | 349,595 |
| Current portion of long-term debt | | 73,913 | - | 73,913 |
| Other liabilities | 29.c | - | - | - |
| Liability component of convertible debenture | 29.e | 6,371,867 | (29,268) | 6,342,599 |
| | | 25,113,145 | (29,268) | 25,083,877 |
| **Non-current liabilities** | | | | |
| Capital lease obligations | | 74,434 | - | 74,434 |
| Long-term debt | | 34,603 | - | 34,603 |
| Liability component of convertible debenture | | | - | - |
| Provision for closure and reclamation | 29.b | 3,405,395 | 7,672,355 | 11,077,750 |
| Deferred income tax liability | 29.e | 7,190,192 | 186,141 | 7,376,333 |
| **Total liabilities** | | 35,817,769 | 7,829,228 | 43,646,997 |
| **Shareholder's equity** | | | | |
| Share capital | 29.c | 96,486,254 | (5,544,028) | 90,942,226 |
| Commitment to issue shares | | - | - | - |
| Equity component of convertible debentures | | 830,334 | - | 830,334 |
| Share-based payments reserve | 29.a | 17,001,133 | (10,346,161) | 6,654,972 |
| Transaction with owners | 29.e | - | 207,655 | 207,655 |
| Retained earnings (deficit) | 29.a,c,e,f | (16,296,776) | 16,124,432 | (172,344) |
| Equity attributable to owners of the Company | | 98,020,945 | 441,898 | 98,462,843 |
| Non-controlling interest | | 1,254,099 | - | 1,254,099 |
| **Total equity** | | 99,275,044 | 441,898 | 99,716,942 |
| **TOTAL LIABILITIES AND EQUITY** | | $ 135,092,813 | $ 8,271,126 | $ 143,363,939 |

**29. Transition to IFRS (continued)**

**Reconciliation of Consolidated Statement of Operations for the Three Months Ended March 31, 2010**

| Canadian GAAP accounts | | Canadian GAAP Balances | IFRS Adjustments | IFRS Balance |
|---|---|---|---|---|
| Revenue, net of royalties | | $ 5,251,360 | $ - | $ 5,251,360 |
| Mine operating expenses | | | | |
| Depletion and depreciation | | (4,878,077) | - | (4,878,077) |
| Total operating expenses | | (1,206,063) | - | (1,206,063) |
| Gross (loss) | | (6,084,140) | - | (6,084,140) |
| | | (832,780) | - | (832,780) |
| Expenses | | | | |
| Professional, consulting and management | | (404,636) | - | (404,636) |
| Other general and administrative expenses | | (425,450) | - | (425,450) |
| Other gains and losses | 29.e | 233,526 | (19,839) | 213,687 |
| Finance income | | - | - | - |
| Finance costs | 29.f | (322,105) | 254,082 | (68,023) |
| Impairment charge | | - | - | - |
| **Loss before income tax** | | (1,751,445) | 234,243 | (1,517,202) |
| Deferred income tax recovery | 29.e | 127,000 | 1,193,036 | 1,320,036 |
| **Loss and comprehensive loss for the period** | | $ (1,624,445) | $ 1,427,279 | $ (197,166) |
| Loss attributable to: | | | | |
| Owners of the Company | | (1,624,770) | 1,427,279 | (197,491) |
| Non-controlling interest | | 325 | | 325 |
| | | (1,624,445) | 1,427,279 | (197,166) |
| **Loss per share** | | | | |
| Basic | | $ (0.01) | | $ (0.00) |
| Diluted | | $ (0.01) | | $ (0.00) |
| Weighted average number of shares outstanding: | | | | |
| Basic | | 218,338,979 | | 218,338,979 |
| Diluted | | 218,338,979 | | 218,338,979 |

### 29. 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 | 29.b | 13,848,698 | (705,686) | 13,143,012 |
| Mineral propertes and deferred exploration expenditures | 29.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 | 29.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 | 29.e | 5,450,683 | (48,529) | 5,402,154 |
| Provision for closure and reclamation | 29.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 | 29.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 | 29.a | 19,632,280 | (11,350,235) | 8,282,045 |
| Transaction with owners | 29.e | - | 100,845 | 100,845 |
| Retained earnings (deficit) | 29.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 |

### 29. Transition to IFRS (continued)

**Reconciliation of Consolidated Statement of Operations for the Year Ended December 31, 2010**

| Canadian GAAP accounts | | 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 | 29.e | 488,294 | (194,553) | 293,741 |
| Finance income | | 41,067 | - | 41,067 |
| Finance costs | 29.f | (1,334,858) | 966,359 | (368,499) |
| Impairment charge | 29.b,f | (41,648,665) | (1,345,439) | (42,994,104) |
| **Loss before income tax** | | (55,066,035) | (573,633) | (55,639,668) |
| Deferred income tax recovery | 29.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 |