

STEMINE CANADA Ltd.

(AN EXPLORATION COMPANY)

Unaudited interim
Financial Statements
For the six-month period ended
January 31, 2012

Stelmine Canada Ltd.
Interim Financial Statements
For the six-month period ended January 31, 2012 and 2011
(Unaudited in Canadian dollars)

NOTICE TO READERS OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS:

The unaudited interim financial statements of Stelmine Canada Ltd. for the six-month period ended January 31, 2012 have not been reviewed by the Company's external auditors.

(s) Michel Lemay

Michel Lemay, director

(s) Martin Nicoletti

Martin Nicoletti, chief financial officer

Stelmine Canada Ltd.
Interim financial position
For the six months ended January 31, 2012 and 2011
(Unaudited, in Canadian dollars)

	Notes	<u>January 31, 2012</u>	<u>July 31, 2011</u>
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash held for exploration	6	163,504	55,591
Receivable	7	63,701	37,216
Prepaid expenses		12,446	12,010
Advance to related company		69,383	69,383
		<u>309,034</u>	<u>174,200</u>
NON CURRENT ASSETS			
Mining properties	8	705,741	741,869
Exploration and evaluation expenses	8	678,447	880,701
		<u>1,693,222</u>	<u>1,796,770</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	9	519,262	481,501
Future income and mining taxes	14	335,350	331,748
		854,612	813,249
SHAREHOLDERS' EQUITY			
Share capital	11	3,217,990	3,001,933
Warrants	11	104,518	106,471
Contributed surplus		1,255,639	1,148,596
Retained deficit		(3,739,537)	(3,273,479)
		<u>838,610</u>	<u>983,521</u>
		<u>1,693,222</u>	<u>1,796,770</u>

The accompanying notes are an integral part of the financial statements.

The financial statements were approved and authorized for issue by the board of directors on March 29, 2012

(s) Michel Lemay

Director

(s) Pierre Carrier

Director

Stelmine Canada Ltd.
Interim Statement of Comprehensive Income
For the six months ended January 31, 2012 and 2011
(Unaudited, in Canadian dollars)

	Notes	Three-month period ended		Six-month period ended	
		January 31,	January 31,	January 31,	January 31,
		2012	2011	2012	2011
		\$	\$	\$	\$
ADMINISTRATIVE EXPENSES					
Consultant fees	12.1	69,550	40,490	99,546	71,480
Professional fees		58,978	6,334	72,152	17,676
Write-off of mining assets		53,466	120,978	53,466	120,978
Write-off of deferred exploration expenses		248,071	58,449	248,071	58,449
General administrative expenses		26,147	21,170	57,247	55,540
Stock-based compensation cost		286	6,904	572	23,949
Registration and information to shareholders		8,099	8,657	10,604	10,379
Operating loss		<u>464,597</u>	<u>262,982</u>	<u>541,658</u>	<u>358,451</u>
Gain on debt settlement		(61,161)	-	(61,161)	-
Loss before income taxes		403,436	262,982	480,497	358,451
Future income and mining taxes		<u>(20,955)</u>	<u>12,822</u>	<u>(20,109)</u>	<u>12,822</u>
NET LOSS AND COMPRESIVE INCOME		<u>(382,481)</u>	<u>(275,804)</u>	<u>(460,388)</u>	<u>(371,273)</u>
BASIC AND DILUTED NET LOSS PER SHARE		<u>(0.017)</u>	<u>(0.015)</u>	<u>(0.020)</u>	<u>(0.020)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		22,946,636	18,134,788	22,946,636	18,134,788

Stelmine Canada Ltd.
Interim Statement of Changes in Equity
For the six months ended January 31, 2012 and 2011
(Unaudited, in Canadian dollars)

Notes	Number of common shares outstanding	Share Capital \$	Warrants \$	Contributed Surplus \$	Deficit \$	Total of equity attributable to Stelmine shareholders \$
Balance at August 1, 2011	21,897,940	3,001,933	106,471	1,148,596	(3,273,479)	983,521
Private placement	5,220,000	163,407	97,593	-	-	261,000
Flow-Through private placement	810,000	52,650	6,925	-	-	59,575
Warrants expired	-	-	(106,471)	106,471	-	-
Share issue expenses	-	-	-	-	(5,670)	(5,670)
Share-based payments	-	-	-	572	-	572
Transactions with owners	<u>27,927,940</u>	<u>3,217,990</u>	<u>104,518</u>	<u>1,255,639</u>	<u>(3,279,149)</u>	<u>1,298,999</u>
Loss for the period	-	-	-	-	(460,388)	(460,388)
Balance at January 31, 2012	<u>27,927,940</u>	<u>3,217,990</u>	<u>104,518</u>	<u>1,255,639</u>	<u>(3,739,537)</u>	<u>838,610</u>
Balance at August 1, 2010	17,377,940	2,582,145	47,059	1,107,722	(2,585,863)	1,151,063
Private placement	2,284,000	86,327	69,473	-	-	155,800
Flow-through private placement	1,936,000	290,400	-	-	-	290,400
Acquisition of mining properties	300,000	33,000	-	-	-	33,000
Options granted to broker	-	-	-	9,305	-	9,305
Share issue expenses	-	-	-	-	(42,505)	(42,505)
Share-based payments	-	-	-	23,949	-	23,949
Transactions with owners	<u>21,897,940</u>	<u>2,991,872</u>	<u>116,532</u>	<u>1,140,976</u>	<u>(2,628,368)</u>	<u>1,621,012</u>
Loss of the period	-	-	-	-	(371,273)	(371,273)
Balance at January 31, 2011	<u>21,897,940</u>	<u>2,991,872</u>	<u>116,532</u>	<u>1,140,976</u>	<u>(2,999,641)</u>	<u>1,249,739</u>

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

Stelmine Canada Ltd.

Interim Statement of Cash Flows

For the six months ended January 31, 2012 and 2011

(Unaudited, in Canadian dollars)

	Notes	Three-month period ended		Six-month period ended	
		January 31, 2012 unaudited \$	January 31, 2011 unaudited \$	January 31, 2012 unaudited \$	January 31, 2011 unaudited \$
OPERATING ACTIVITIES					
Net Loss		(382,481)	(275,804)	(460,388)	(371,273)
Write-off mining assets		53,466	120,978	53,466	120,978
Write-off of deferred exploration expenses		248,071	58,449	248,071	58,449
Gain on debt settlement		(61,161)	-	(61,161)	-
Stock-based compensation		286	6,904	572	23,949
		<u>(141,819)</u>	<u>(89,473)</u>	<u>(219,440)</u>	<u>(167,897)</u>
Net change in non-cash operating working capital items	15	<u>(40,604)</u>	<u>(137,514)</u>	<u>13,678</u>	<u>(44,290)</u>
		<u>(182,423)</u>	<u>(226,987)</u>	<u>(205,762)</u>	<u>(212,187)</u>
FINANCING ACTIVITIES					
Cash inflow relating to capital stock and warrants		382,500	543,000	382,500	543,000
Share issue expenses		<u>(4,500)</u>	<u>(33,200)</u>	<u>(5,670)</u>	<u>(33,200)</u>
		378,000	509,800	376,830	509,800
INVESTING ACTIVITIES					
Variation of cash reserved for exploraton		(154,738)	(243,524)	(107,913)	(243,506)
Acquisition of mining properties		(6,234)	(20,208)	(17,338)	(20,208)
Increase in deferred exploration expenses		<u>(34,605)</u>	<u>(32,747)</u>	<u>(45,817)</u>	<u>(49,046)</u>
		<u>(195,577)</u>	<u>(296,479)</u>	<u>(171,068)</u>	<u>(312,760)</u>
CASH AND CASH EQUIVALENTS DECREASE		-	(13,666)	-	(15,147)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		-	13,666	-	15,147
CASH AND CASH EQUIVALENTS, END OF PERIOD		-	-	-	-

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

Stelmine Canada Ltd.
Notes to interim Financial Statements
For the six months ended January 31, 2012 and 2011
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1. NATURE OF OPERATIONS

Stelmine Canada Ltd. (hereinafter the "Company") specialize in exploration of gold mining sites located in Quebec, Canada.

2. GOING CONCERN ASSUMPTION

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) and on a basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Given that the Company has not yet determined whether its mineral properties contain mineral deposits that are economical recoverable, the Company has not yet generated neither income nor cash flow from its operations. As at January 31, 2012 the Company has a deficit of \$ 3,739,5375 (\$ 3,273,479) as at July 31, 2011). These material uncertainties raise doubt regarding the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties. Even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future.

The carrying amounts of assets, liabilities, revenues and expenses presented in the financial statements and the classification used in the statement of financial position have been adjusted as would be required if the going concern assumption was not appropriate.

3. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

The interim financial statements of the Company have been prepared using the standard IAS 34, Interim Financial Reporting and IFRS 1 First-time Adoption of International Financial Reporting Standards, while considering accounting policies that the company proposes to adopt for its financial statements for the year ended July 31, 2011. These accounting policies are based on IFRS and interpretations of International Financial Reporting Interpretations Committee (IFRIC[™]) which, according to the company, will be in effect at July 31, 2011. The accounting policies described in Note 4 were applied in the same way for all periods presented unless otherwise indicated.

The interim financial statements should be read in conjunction with the consolidated financial statements under the old accounting standards and the accompanying notes at July 31, 2011 and for the year then ended.

Note 17 provides a reconciliation of shareholders' equity, net income and comprehensive income according to generally accepted accounting principles ("GAAP") of Canada and under IFRS, as well as a description of the impact of the transition Canadian GAAP to IFRS on these items.

These financial statements have been prepared under the historical cost basis except for financial assets held for sale are carried at fair value through comprehensive income.

The address of Stelmine Canada Ltd.'s registered office and its principal place of business is 1155, University, Suite 822, Montreal, Quebec, Canada. Stelmine Canada Ltd. 's shares are listed on the TSX Venture Exchange.

The financial statements for the reporting period ended January 31, 2012 (including comparatives) were approved and authorized for issue by the Board of Directors on March 29, 2012.

4. SUMMARY OF ACCOUNTING POLICIES

4.1 Overall considerations and first-time adoption of IFRS

The significant accounting policies that have been applied in the preparation of these financial statements are summarized below.

These accounting policies have been used throughout all periods presented in the financial statements, except where the Company has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Company and the effects of transition to IFRS are presented in Note 17.

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4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 Financial Instruments (effective from January 1, 2013)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurements and the recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Company. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

IFRS 12, Disclosure of Interests in Other entities

This new standard provides minimum disclosure requirements when a reporting entity holds an interest in other entities. This standard combines disclosures required for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities, which were previously located in each applicable individual standard.

IFRS 13, Fair Value Measurement

This new standard is meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

4.3 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables;
- Available-for-sale financial assets.

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4.3 Financial instruments (continued)

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income. All income and expenses relating to financial assets that are recognized in profit or loss are presented within Finance costs or Finance income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, cash held for exploration expenses fall into this category of financial instruments.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's available-for-sale financial assets include marketable securities in quoted mining exploration companies.

Impairment charges are recognized in profit or loss.

All available-for-sale financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified to profit or loss in Finance income or Finance costs and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within Finance income.

Reversals of impairment losses are recognized in other comprehensive income.

Impairment of financial assets

All financial assets, except for those at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a Company of financial assets is impaired.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial reorganization.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Companies, which are determined by reference to the industry and region of counterparty and other available features of shared credit risk characteristics. The percentage of the write-down is then based on recent historical counterparty default rates for each identified Company. Impairment of receivables are presented in profit or loss within Other operating expenses.

Financial liabilities

The Company's financial liabilities include trade accounts and amounts payable due to an associate.

Financial liabilities are measured subsequently at amortized cost using the effective interest method.

All interest-related charges are reported in profit or loss within Finance costs.

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4.4 Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting loss attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, at the date of issue of the potential ordinary shares.

For the purpose of calculating diluted loss per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The diluted loss per share is equal to the basic loss per share as a result of the anti-dilutive effect of the outstanding options and warrants as explained in Note 13.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with othershort-term, highly liquid investments with original maturities of six months or less, and that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.6 Tax credits and credit on duties

The Company is entitled to a refundable credit on duties for losses under the Mining Duties Act. This refundable credit on duties for losses is applicable on exploration costs incurred in the Province of Quebec.

Furthermore, the Company is entitled to a refundable tax credit for resources for mining companies on qualified expenditures incurred. In accordance with IAS 20, the credit on duties and the exploration tax credit have been applied against the costs incurred.

4.7 Exploration and evaluation expenditures and exploration and evaluation assets

Exploration and evaluation expenditures are costs incurred in the course of initial search for mineral deposits with economic potential. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred.

Once the legal right to undertake exploration and evaluation activities has been obtained, the costs of acquiring mineral rights, expenses related to the exploration and evaluation of mining properties and refundable tax credits and credits on duties related to these expenses are charged to the cost of exploration. Expenses related to exploration and evaluation include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are recognized as intangible assets and are carried at cost less any accumulated impairment losses. No depreciation expenses are recognized for these assets during the exploration and evaluation phase.

Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts (see Note 4.10); the difference is then immediately recognized in profit or loss.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets related to the mining property are transferred to property and equipment in Mining assets under construction. Before the reclassification, exploration and evaluation assets are tested for impairment (see Note 4.10) and any impairment loss is recognized in profit or loss before reclassification.

To date, neither the technical feasibility nor the commercial viability of a mineral resource has been demonstrated.

Although the Company has taken steps to verify title to the mining properties in which it holds an interest, in accordance with industry practices for the current stage of exploration and development of such properties, however these procedures do not guarantee the validity of the Company's titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Assignment of interest under the option agreement.

During transfer of interest, as part of option agreement, the company does not record the expenses related to exploration and evaluation made by the purchaser on the property. In addition, amounts received directly from the purchaser shall be credited against the costs previously capitalized to property; the surplus is recorded as gain on disposal of exploration and evaluation assets to the expenses.

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4.9 Operating lease agreements

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease. Related expenses, such as maintenance and insurance expenses are charged to income as they are incurred.

4.10 Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment. Additionally, when technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the exploration and evaluation assets of the related mining property are tested for impairment before these items are transferred to property and equipment.

An impairment loss is recognized in profit or loss for the amount by which the assets or cash-generating units carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use. To determine the value in use, management estimates expected future cash flows from each asset or cash-generating unit, and then determines an appropriate interest rate for the calculation of the expected present value of the cash flows.

The impairment loss reduces the asset or is changed pro rata on the basis of the carrying amount of each asset in the cash-generating unit. All the assets are assessed whether there is any indication that an impairment loss recognized in prior periods may no longer exist. An impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

4.11 Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes, decommissioning, restoration and similar liabilities, or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets. Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized.

The Company's operations are governed by government environment protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable and impact. The Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible and are capitalized to the cost of exploration and evaluation assets as incurred. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

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4.12 Employee benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions to an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contributions. The Company contributes to several state plans for individual employees that are considered defined contribution plans. Contributions to the plans are recognized as an expense in the period that relevant employee services are rendered.

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) is recognized in the period in which the services are rendered and is not discounted.

The expected cost of compensated absences is recognized in profit or loss as the employees render services that increase their entitlement.

The cost of bonus payments is recognized in profit or loss when there is a legal or constructive obligation to make such payments as a result of past performance.

4.13 Deferred income taxes

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. For management's assessment of the probability of future taxable income to utilize against deferred tax assets, see Note 14.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Under the provisions of tax legislation relating to flow-through shares, the Company is required to renounce tax deductions for expenses related to exploration activities to the benefit of the investors. Deferred income taxes relating to temporary differences are recorded when the renouncement forms are filed with the tax authorities.

4.14 Equity

Share capital represents the amount received on the issue of shares.

Unit placements

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

Flow-through placements

Issuance of flow-through shares is accounted for similarly to the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefit to the investors. Proceeds from the issuance of shares by flow-through private placements are allocated between shares issued and a liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to the liability.

Gains and losses on certain financial instruments are included in reserves for available-for-sale financial assets.

Retained deficit includes all current and prior period retained profits or losses less issuance costs, net of any underlying income tax benefit for these issuance costs.

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4.15 Equity-settled share-based payments

The Company operates equity-settled share-based remuneration plans (share options plans) for its eligible directors, officers, employees and consultants. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values. Where employees are rewarded using share-based payments, the fair value of the services rendered by the employees is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All equity-settled share-based payments except broker's warrants are ultimately recognized as an expense in the profit or loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment with a corresponding credit to Contributed surplus, in equity.

Brokers' warrants are recorded as cost of issuing equity instruments and the consideration is credited to Contributed surplus.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting year, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are recorded as share capital. The accumulated charges related to the share options recorded in contributed surplus are then transferred to share capital.

5. CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

When preparing the consolidated financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Exploration and evaluation assets

Technical feasibility and commercial viability

Decisions regarding the technical feasibility and commercial viability of the exploration and evaluation assets involves a number of assumptions, such as estimated reserves, resource price forecasts, expected production volumes and discount rates, which could all change significantly in the future.

Impairment of property and equipment and exploration and evaluation costs

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses are a subjective process involving judgment and a number of estimates and interpretations in many cases.

Determining whether to test for impairment of exploration and evaluation assets requires management's judgment, among others, regarding the following: the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs must be determined. Identifying the cash generating units requires considerable management judgment. In testing an individual asset or cash generating unit for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the cash-generating unit. This requires management to make several assumptions as to future events or circumstances.

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5. CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS (continued)

These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation and significant adjustments to the Company's assets and earnings may occur during the next period.

Deferred taxes

The assessment of availability of future taxable profits involves judgment. A deferred tax asset is recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized.

Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment.

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model.

Provisions and contingent liabilities

Judgements are made as to whether a past event has led to a liability that should be recognized in the consolidated financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgments and estimations. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received previous experience and the probability of a loss being realized. Several of these factors are source of estimation uncertainty.

6. CASH HOLD FOR EXPLORATION

The cash held for exploration expenses represents the balance of flow-through financing not spent according to the restrictions imposed by these financing arrangements. The Company has to dedicate these funds to mining exploration expenses.

	<u>January 31, 2012</u>	<u>July 31, 2011</u>
	\$	\$
Cash held for exploration	<u>163,504</u>	<u>55,591</u>

7. RECEIVABLE

	<u>January 31, 2012</u>	<u>July 31, 2011</u>
	\$	\$
Sales tax receivable	<u>63,701</u>	<u>37,216</u>
Receivable	<u><u>63,701</u></u>	<u><u>37,216</u></u>

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8. EXPLORATION AND EVALUATION ASSETS

		Balance as at July 31, 2011	Additions	Disposal	Balance as at January 31, 2012
		\$	\$		\$
Quebec	Property – Aiguebelle (a)				
	Mining rights	88,301	1,262	-	89,563
	Exploration	2,300	5,606	-	7,7906
		<u>90,601</u>	<u>6,869</u>	<u>-</u>	<u>97,470</u>
Quebec	Property – Clericy (b)				
	Mining rights	33,027	4,364	-	37,391
	Exploration	20,300	11,213	-	31,513
		<u>53,327</u>	<u>15,576</u>	<u>-</u>	<u>68,903</u>
Quebec	Property – Gaspesie (c)				
	Mining rights	326,231	5,574	-	331,805
	Exploration	93,053	-	-	93,053
		<u>419,284</u>	<u>5,574</u>	<u>-</u>	<u>424,858</u>
Quebec	Property – Opinaca (d)				
	Mining rights	241,118	5,864	-	246,982
	Exploration	540,369	5,606	-	545,975
		<u>781,487</u>	<u>11,470</u>	<u>-</u>	<u>792,957</u>
Quebec	Property – Winchester (e)				
	Mining rights	53,192	274	(53,466)	-
	Exploration	224,679	23,392	(248,071)	-
		<u>277,871</u>	<u>23,392</u>	<u>(301,537)</u>	<u>-</u>
Summary	Mining rights	741,869	17,338	(53,846)	705,741
	Exploration	880,701	45,817	(248,071)	678,447
		<u>1,622,570</u>	<u>63,155</u>	<u>(301,537)</u>	<u>1,384,188</u>

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8. EXPLORATION AND EVALUATION ASSETS (continued)

		Balance as at July 31, 2010	Additions	Disposal	Balance as at July 31, 2011
		\$	\$		\$
Quebec	Property – Aiguebelle (a)				
	Mining rights	88,037	264	-	88,301
	Exploration	2,300	-	-	2,300
		<u>90,337</u>	<u>264</u>	<u>-</u>	<u>90,601</u>
Quebec	Property – Clericy (b)				
	Mining rights	32,919	108	-	33,027
	Exploration	20,300	-	-	20,300
		<u>53,219</u>	<u>108</u>	<u>-</u>	<u>53,327</u>
Quebec	Property – Gaspesie (c)				
	Mining rights	323,444	2,787	-	326,231
	Exploration	93,053	-	-	93,053
		<u>416,497</u>	<u>2,787</u>	<u>-</u>	<u>419,284</u>
Quebec	Property – Kipawa				
	Mining rights	77,441	-	(77,441)	-
	Exploration	23,690	28,003	(51,693)	-
		<u>101,131</u>	<u>28,003</u>	<u>(129,134)</u>	<u>-</u>
Quebec	Property – Gatineau Bloc 2				
	Mining rights	43,537	-	(43,537)	-
	Exploration	-	6,756	(6,756)	-
		<u>43,537</u>	<u>6,756</u>	<u>(50,293)</u>	<u>-</u>
Quebec	Property – Opinaca (d)				
	Mining rights	239,395	1,723	-	241,118
	Exploration	540,369	-	-	540,369
		<u>779,764</u>	<u>1,723</u>	<u>-</u>	<u>781,487</u>
Quebec	Property – Winchester (e)				
	Mining rights	-	53,192	-	53,192
	Exploration	-	224,679	-	224,679
		<u>-</u>	<u>277,871</u>	<u>-</u>	<u>277,871</u>
Summary	Mining rights	804,773	58,074	(120,978)	741,869
	Exploration	679,712	259,438	(58,449)	880,701
		<u>1,484,485</u>	<u>317,512</u>	<u>(179,427)</u>	<u>1,622,570</u>

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8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

(a) Aiguebelle, Quebec

The Aiguebelle property is located in Aiguebelle Townships, 28 kilometers North of Rouyn-Noranda. It is composed of 4 claims covering an area of 159 hectares. The property is 100% owned by the Company.

(b) Clericy, Quebec

The Clericy property is located in Clericy Townships, 15 kilometers North of Rouyn-Noranda. It is composed of 15 claims covering an area of 620 hectares. The property is 100% owned by the Company.

(c) Gaspesie, Quebec

The Gaspesie property is composed of an exploration licence covering an area of 34,000 hectares and is located in Gaspesie. The Company owns 100%.

(d) Opinaca, Quebec

The Opinaca property is composed of 46 claims covering an area of 2,395 hectares and is located on the area of Opinaca in Bay James.

(e) Winchester, Quebec

The Winchester property is composed of 20 claims covering an area of 720 hectares and is located in the district of Chibougamau. The Company decided to write-off the property during the period,

9. TRADE AND OTHER PAYABLES

	<u>January 31, 2012</u>	<u>July 31, 2011</u>
	\$	\$
Trade and other payables	<u>519,262</u>	<u>481,501</u>

10. LEASES

The Company's future minimum operating lease payments are as follows:

	<u>Minimum lease payments due</u>			
	<u>Within 1 year</u>	<u>1 to 5 years</u>	<u>After 5 years</u>	<u>Total</u>
	\$	\$	\$	\$
January 31, 2012	22,500	30,000	-	52,500
July 31, 2011	30,000	30,000	-	60,000

The Company leases its offices under a lease expiring in May 2013. Lease payments recognized as an expense during the reporting period amount to \$7,500 (\$7,500 in 2010). This amount consists of minimum lease payments. No sublease payments or contingent rent payments were made or received. The Company's operating lease agreements do not contain any contingent rent clauses, renewal options or escalation clauses or any restrictions, such as those concerning dividends, additional debt, and further leasing. No sublease income is expected as all assets held under lease agreements are used exclusively by the Company.

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11. EQUITY

11.1 Capital stock

The share capital of Stelmine Canada Ltd. consists only of fully paid ordinary shares.

Authorized

Unlimited number of shares without par value. All shares are equally eligible to receive dividends and the repayment of capital, and represent one vote each at the shareholders' meeting of Stelmine Canada Ltd.

	<u>January 31, 2012</u>	<u>July 31, 2011</u>	<u>January 31, 2011</u>
Shares issued and fully paid			
Shares issued and fully paid at beginning of period	21,897,940	17,377,940	17,377,940
Private placement (a) (c) (e)	5,220,000	2,284,000	2,284,000
Flow-through private placement (b) (c) (e)	810,000	1,936,000	1,936,000
Mining properties acquisition (d)	-	300,000	300,000
Total shares issued and fully paid end of period	<u>27,927,940</u>	<u>21,897,940</u>	<u>21,897,940</u>

- a) Private financing is presented net of the fair value assigned to the warrants, amounting to \$ 97,593 (\$ 59,412 in 2011).
- b) Flow-through private financing is presented net of the fair value assigned to the warrants, amounting to \$ 6,925 (\$ nil in 2011)
- c) On December 29, 2010, the Company completed a private placement of 242 units A for a consideration of \$ 363,000 and 180 units B for a consideration of \$ 180,000. Each unit A consists of 8,000 flow-through common shares, 2,000 common shares and 2,000 warrants. Each unit B consist of 10,000 common shares and 10,000 warrants. Each warrant entitles its holder to acquire one common share at a price of \$ 0.15 for a period of 12 months. A value of \$ 59,412 (\$ 300,812 in 2010) was allocated to the warrants. Finder's fees totalling \$ 33,000 in cash and 220,000 share purchase options to Canaccord Capital. Each broker option may be exercised to acquire one common share at a price of \$ 0,15 for a period of 18 months.
- d) In December 2010, the Company issued 300,000 common shares at an average price of \$ 0.11 according to a signed agreement related to mining claims surrounding the Winchester property.
- e) On December 29, 2011, the Company completed a non brokered private placement for a consideration of \$ 382,500. The private placement consisted of 81 units A at a price of \$1,500 per unit. Each unit A consists of 10,000 share purchase warrant, 2,000 Each share purchase warrant shall entitle its holder thereof to acquire one additional common share of Stelmine at a price of \$0,20 for a period of 12 months from the closing date for gross proceeds of \$ 121,500. 261 units B at a price of \$ 1,000 per unit. Each unit B consists of 20,000 common shares at a price of \$0,05 per common share and 20,000 share purchase warrants. Each share purchase warrant shall entitle its holder thereof to acquire one additional common share of Stelmine at a price of \$0,10 for a period of 12 months from the closing date for gross proceeds of \$ 261,000.

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11.2 Warrants

Outstanding warrants entitle their holders to subscribe to an equivalent number of ordinary shares, as follows:

	January 31, 2012		July 31, 2011		January 31, 2011	
	Number of warrants	Weighted Average exercise price	Number of warrants	Weighted exercise price	Number of warrants	Weighted average exercise price
				\$		\$
Balance, beginning of reporting period	4,636,940	0,20	2,352,941	0,25	2,352,940	0,25
Granted	810,000	0,20	2,284,000	0,15	2,284,000	0,15
Granted	5,220,000	0,10	-	-	-	-
Expired	(4,636,940)	0,20	-	-	-	-
Balance, end of reporting period	<u>6,030,000</u>	0,15	<u>4,636,941</u>	0,20	<u>4,636,941</u>	0,20

The number of outstanding warrants which could be exercised for an equivalent number of ordinary shares is as follow:

Expiration date	January 31, 2012		July 31, 2011		January 31, 2011	
	Number	Exercise price	Number	Exercise price	Number	Exercise price
		\$		\$		\$
December 30, 2012	810,000	0,20	2,352,941	0,25	2,352,941	0,25
December 30,2012	<u>5,220,000</u>	0,10	<u>2,284,000</u>	0,15	<u>2,284,000</u>	0,15
	<u>6,030,000</u>		<u>4,636,941</u>		<u>4,636,941</u>	

11.3 Brokered warrants

Outstandings warrants entitle their holders to subscribe to an equivalent number of ordinary share, as follows:

	January 31, 2012		July 31, 2011		January 31, 2011	
	Number of warrants	Weighted Average exercise price	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average Exercise price
		\$		\$		\$
Balance, beginning of reporting period	455,294	0,16	235,294	0,17	235,294	0,17
Granted	-	-	220,000	0,15	220,000	0,15
Expired	<u>(235,294)</u>		<u>-</u>		<u>-</u>	
Balance end of reporting period	<u>220,000</u>	0,15	<u>455,294</u>	0,16	<u>455,294</u>	0,16

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11.3 Brokered warrants (continued)

The number of outstanding brokered warrants which could be exercised for an equivalent number of ordinary shares is, as follows:

Expiration date	January 31, 2012		July 31, 2011		January 31, 2011	
	Number	Exercise price	Number	Exercise price	Number	Exercise Price
		\$		\$		\$
December 24, 2011	-		235,294	0,17	235,294	0,17
June 29, 2012	<u>220,000</u>	0,15	<u>220,000</u>	0,15	<u>220,000</u>	0,15
	<u>220,000</u>		<u>455,294</u>		<u>455,294</u>	

12. EMPLOYEE REMUNERATION

12.1 Fees and management expenses

Fees and management benefits expense recognized are analyzed below:

	Three-month period ended		Six-month period ended	
	January 31, 2012	January 31, 2011	January 31, 2012	January 31, 2011
	\$	\$	\$	\$
Management fees	25,000	23,000	46,000	44,000
Consulting fees	10,500	10,500	21,000	19,500
Share-based payments	<u>286</u>	<u>-</u>	<u>572</u>	<u>-</u>
Consulting fees and benefits expense	<u>35,786</u>	<u>33,500</u>	<u>67,572</u>	<u>63,500</u>

12.2 Share-based payments

The Company has adopted share-based payment plans under which members of the Board of Directors may award options for ordinary shares to directors, officers, employees and consultants. The maximum number of shares issuable under the plans is 2,800,000.

The exercise price of each option is determined by the Board of Directors and cannot be less than the market value of the ordinary shares on the day prior the award, and the term of the options cannot exceed five years. The options vesting period is three years.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options.

The Company's share options are as follows for the reporting periods presented:

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12.2 Share-based payments (continued)

	January 31, 2012		July 31, 2011		January 31, 2011	
	Number of options	Weighted Average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average Exercise price
		\$		\$		\$
Balance, beginning of reporting period	1,850,000	0,26	1,850,000	0,26	1,850,000	0,26
Balance, end of reporting period	1,850,000	-	1,850,000	-	1,850,000	-

The table below summarizes the information related to share options as at January 31, 2012:

Range of exercise price	Outstanding options			Exercisable options	
	Number of options	Weighted average exercise price	Remaining life (years)	Number of options	Weighted average exercise price
\$		\$			\$
0.10 to 0.30	1,550,000	0.20	2.24	1,550,000	0.20
0.30 to 0.60	300,000	0.54	1.33	300,000	0.54
	1,850,000	0.26		1,850,000	0.26

The table below summarizes the information related to share options as at July 31, 2011:

Range of exercise price	Outstanding options			Exercisable options	
	Number of options	Weighted average exercise price	Remaining life (years)	Number of options	Weighted average exercise price
\$		\$			\$
0.10 to 0.30	1,550,000	0,20	2,74	1,500,000	0,20
0.30 to 0.60	300,000	0,54	1.83	300,000	0,54
	1,850,000	0,26	2,59	1,800,000	0,26

The table below summarizes the information related to share options as at January 31, 2011:

Range of exercise price	Outstanding options			Exercisable options	
	Number of options	Weighted average exercise price	Remaining life (years)	Number of options	Weighted average exercise price
\$		\$			\$
0.10 to 0.30	1,550,000	0,20	3.24	1,212,500	0,20
0.30 to 0.60	300,000	0,54	2.33	300,000	0,54
	1,850,000	0,26	3,09	1, 512,500	0,27

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13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period divided by the weighted average number of shares in circulation during the period. In calculating the diluted loss per share, potential ordinary shares such as share options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Notes 11 and 12.

Both the basic and diluted loss per share have been calculated using the loss attributable to owners of the parent company as the numerator, i.e. no adjustment to the loss were necessary in 2012 and 2011.

	Three-month period ended		Six-month period ended	
	January 31, 2012	January 31, 2011	January 31, 2012	January 31, 2011
	\$	\$	\$	\$
Loss for the period	(382,481)	(275,804)	(460,388)	(371,373)
Weighted average number of shares in circulation	(22,946,636)	18,134,788	(22,946,636)	18,134,788
Basic and diluted loss per share	(0.017)	(0.015)	(0.020)	(0.020)

There have been no other transactions involving ordinary shares between the reporting date and the date of authorization of these financial statements.

14. INCOME TAXES

Deferred tax assets and liabilities relating to deductible and taxable temporary differences and unused tax losses are recognized in the statement of financial position.

As at July 31, 2011, the Company had deferred non-capital losses of \$2,992,754 not recognized in deferred tax assets that can be used to reduce taxable benefit in future years and expire in 2030.

	July 31, 2011
	\$
Recognized future income tax assets	
Mining assets	-
Losses carried forward	629,474
Share issue expenses	33,037
	<u>662,511</u>
Recognized future income tax liabilities	662,511

15. ADDITIONAL INFORMATIONS – CASH FLOWS

a) The changes in working capital items are detailed as follows:

	Three-month period ended		Six-month period ended	
	January 31, 2012	January 31, 2011	January 31, 2012	January 31, 2011
	\$	\$	\$	\$
Tax credits receivable	(28,969)	1,824	(26,485)	5,526
Prepaid expenses	4,944	(5,674)	(436)	(6,400)
Accounts payable	(20,181)	(146,486)	36,997	(56,238)
Future income and mining taxes	3,602	12,822	3,602	12,822
	<u>(40,604)</u>	<u>(137,514)</u>	<u>13,678</u>	<u>(44,290)</u>

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15. ADDITIONAL INFORMATIONS – CASH FLOWS (continued)

b) Éléments sans incidence sur la trésorerie et les équivalents de trésorerie:

	Three-month period ended		Six-month period ended	
	January 31, 2012 \$	January 31, 2011 \$	January 31, 2012 \$	January 31, 2011 \$
Share based payments	286	6,904	572	23,949
Write –off mining properties	53,466	120,978	53,466	120,978
Write –off deferred exploration expenses	248,071	58,449	248,071	58,449
Gain on debt settlement	(61,161)	-	(61,161)	-
	<u>240,662</u>	<u>186,331</u>	<u>240,948</u>	<u>203,376</u>

c) Cash and cash equivalents:

	Three-month period ended		Six-month period ended	
	January 31, 2012 \$	January 31, 2011 \$	January 31, 2012 \$	January 31, 2011 \$
Cash	-	(13,666)	-	-

16. RELATED PARTY TRANSACTIONS

The Company's related parties include its associate, other related parties and joint key management, as described below.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

16.1 Transactions with key management personnel

Key management personnel of the Company are members of the Board of Directors, as well as members of key management personnel remuneration includes the following expenses:

	Three –month period ended		Six–month period ended	
	January 31, 2012 \$	January 31, 2011 \$	January 31, 2012 \$	January 31, 2011 \$
Short-term key management benefits				
Consulting fees	10,500	10,500	21,000	19,500
Management fees	25,000	23,000	46,000	44,000
Administration expenses	33,746	28,232	60,960	56,583
Exploration expenses	70,829	35,533	82,041	49,046
Total short-term management benefits	<u>140,074</u>	<u>97,265</u>	<u>210,001</u>	<u>169,129</u>
Share-based payments	143	2,497	286	8,679
Total remuneration	<u>140,217</u>	<u>99,762</u>	<u>210,287</u>	<u>177,808</u>

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17. FIRST-TIME ADOPTION OF IFRS

These financial statements are prepared in accordance with IFRS. The date of transition to IFRS is August 1, 2010.

The Company's IFRS accounting policies presented in Note 4 have been applied in preparing the financial statements for the reporting period ended January 31, 2011, the comparative information and the opening statement of financial position at the date of transition.

The Company has applied IFRS 1 in preparing these first IFRS financial statements. The effects of the transition to IFRS on equity, total comprehensive loss and reported cash flows already established are presented in this section and are further explained in the notes that accompany the tables.

17.1 First-time adoption – exemptions applied

Upon transition, IFRS 1 dictate certain mandatory exceptions and certain optional exemptions from full retrospective application. The exceptions and exemptions adopted by the Company are set out below:

Mandatory exceptions

The estimates established by the Company in accordance with IFRS at the date of transition to IFRS are consisted with estimates made for the same date in accordance with Canadian GAAP, after adjustments to reflect any difference in accounting principles, if applicable.

GAAP were not recognized under IFRS. The Company has early applied the change in IFRS 1 in this respect regarding the application date of the exception, i.e. August 1, 2010.

Optional exemptions

The Company has chosen not to apply IFRS 2, Share-based Payment, retrospectively to options granted on or before November 7, 2002 or granted after November 7, 2002 and vested before the date of transition to IFRS.

The Company has elected not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the date of transition (August 1, 2010).

17.2 Reconciliation of equity

Equity at the date of transition and at January 31, 2011 can be reconciled to the amounts reported under pre-change accounting standards as follows:

	Notes	January 31, 2011
		\$
Equity under pre-change accounting standards	11	1,312,689
Increases (decreases) in equity reported in accordance with pre-change accounting standards, as a result of the following differences between pre-change accounting standards and IFRS:		
Shares issued - Impact of adjustments		156,953
Warrants issued - Impact of adjustments		(253,753)
Contributed surplus - impact of adjustments	17.5	90,159
Share-based payments		(56,309)
Equity under IFRS		<u>1,249,739</u>

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17.3 Reconciliation of deficit

Deficit at the date of transition and at January 31, 2011 can be reconciled to the amounts reported under pre-change accounting standards as follows:

	Notes	<u>January 31, 2011</u>
		\$
Deficit under pre-change accounting standards		(2,943,332)
Increases (decreases) in deficit reported in accordance with pre-change accounting standards, as a result of the following differences between pre-change accounting standards and IFRS:	12	
Share-based payments		<u>(56,309)</u>
Deficit under IFRS		<u><u>(2,999,641)</u></u>

17.4 Presentation differences

Certain presentation differences between pre-change accounting standards and IFRS have no impact on reported loss or total equity.

As can be seen in the following tables, some line items are described differently (renamed) under IFRS compared to pre-change accounting standards, although the assets and liabilities included in these line items are unaffected.

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The following table shows the total effect of the transition on the consolidated statement of financial position:

Pre-change accounting standards description	Notes	January 31, 2011			IFRS description
		Previous GAAP	Effect of transition to IFRS	IFRS	
		\$	\$	\$	
ASSETS					
Current					
Tax receivable		15 334		15 334	Receivable
Prepaid expenses and deposits		15 582		15 582	Prepaid expenses
		<u>30 916</u>		<u>30 916</u>	
Cash reserved for exploration expenses		243 820		243 820	Non-current Cash held for exploration expenses
Mining properties and deferred exploration expenses		1 407 312		1 407 312	Exploration and evaluation assets
Advances to a related company		69 383		69 383	Advances to a related company
		<u>1 720 515</u>		<u>1 720 516</u>	
		<u>1 751 431</u>		<u>1 751 431</u>	Total assets
LIABILITIES					
Current					
Accounts payable and accrued liabilities		69 542	96 800	166 342	Accounts payable and accrued liabilities
Future income and mining taxes		369 200	(33 850)	335 350	Future income and mining taxes
		<u>438 742</u>	<u>62 950</u>	<u>501 692</u>	Total liabilities
SHAREHOLDERS' EQUITY					
Capital stock	17,5	2 834 919	156 953	2 991 872	EQUITY Share capital
Warrants		370 285	(253 753)	116 532	Warrants
Contributed surplus	17,5	1 050 817	90 159	1 140 976	Contributed surplus
Deficit	17,5	(2 943 332)	(56 309)	(2 999 641)	Retained deficit
		<u>1 312 689</u>	<u>(62 950)</u>	<u>1 249 739</u>	Total equity attributable to owners of the parent
		<u>1 751 431</u>		<u>1 751 431</u>	Total liabilities and equity

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The following table shows the total effect of the transition on the consolidated statement of comprehensive loss:

Pre-change accounting standards description	Notes	Three-month period ended			Six-month period ended			IFRS description
		January 31, 2011			January 31, 2011			
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS	
		\$	\$	\$	\$	\$	\$	
Consulting fees		40 490		40 490	71 480		71 480	Consulting fees
Professional fees		6 334		6 334	17 676		17 676	Professional fees
Write-off of mining assets		120 978		120 978	120 978		120 978	Write-off of mining assets
Write-off of exploration expenses		58 449		58 449	58 449		58 449	Write-off of exploration expenses
General administrative expenses		21 170		21 170	55 540		55 540	General administrative expenses
Registration, listing fees and shareholders information		8 657		8 657	10 379		10 379	Registration and information to shareholders
Stock-based compensation costs	17,5		6 904	6 904		23 949	23 949	Stock-based compensation costs
		256 078	6 904	262 982	334 502	23 949	358 451	Loss before income taxes
			12 822	12 822		12 822	12 822	Future income and mining taxes
Net loss		256 078	19 726	275 804	334 502	36 771	371 273	Loss for the period attributable to owners of the parent attributable to owners of the parent
Comprehensive loss		256 078	19 726	275 804	334 502	36 771	371 273	
Net loss per share								Loss per share
Basic and diluted net loss per share		(0,010)		(0,010)	(0,010)		(0,020)	Basic and diluted loss per share

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17.5 Notes to reconciliation

a) Business combination

The Company has elected not to restate business combinations that occurred before the date of transition to IFRS. There are only minor differences between the accounting for business combinations under pre-change accounting standards and IFRS. No difference has been recorded for the acquisitions, i.e. there are no adjustments to the acquired identifiable assets and liabilities.

b) Share-based payments

Under pre-change accounting standards, for grants of share-based payments with graded vesting, the total fair value of the awards is recognized on a straight-line basis over the employment period necessary to vest the awards. Moreover, forfeitures of awards are recognized as they occur.

Under IFRS 2, each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. Also, an estimate of the number of share-based payments expected to be forfeited is required, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

As a result, the Company adjusted its expense for share-based payments to reflect the accounting method differences, resulting in an adjustment of contributed surplus in an increase of \$ 98,065 (\$ 97,779 as at July 31, 2011 and \$ 66,210 as at August 1, 2010), a decrease in the deficit of \$ 9,443 and an increase (\$ 26,164 as at July 31, 2011 and \$ 66,210 as at August 1, 2010)

c) Deferred taxes

Deferred taxes have been adjusted for the changes to net book values arising as a result of the adjustments for first-time adoption of IFRS as discussed above.

17.6 Statement of cash flows

Under pre-change accounting standards, interest paid and received were presented through the notes. Under IFRS, interests are allocated to investing and financing activities where they can be identified with transactions within those categories. There are no other material adjustments to the consolidated statement of cash flows. The components of cash and cash equivalents under pre-change accounting standards are similar to those presented under IFRS.

18. POST-REPORTING DATE EVENTS

On 13 February 2012, the Company announce an agreement with a Quebec City business group, which new directors will join the Company's board of Directors. The Company will add new properties to its portfolio and financial reorganization will be implemented.