NORTHERN SUPERIOR RESOURCES

DRILLING FOR GOLD

ON THE CANADIAN SHIELD

ANNUAL REPORT 2011

Corporate Profile

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Northern Superior Resources Inc. is a junior exploration company focused on exploring for gold in the Superior Province of the Canadian Shield, specifically within two important gold districts: the Stull-Wunnimun in Ontario and the Chibougamau in Québec. The Company has a number of 100% owned properties (see Company web site, www.nsuperior.com) within these districts that were identified and developed from the Company's extensive geoscientific database and from which additional gold exploration projects are being generated. The Company is currently seeking to option-out a number of these properties. Northern Superior is a reporting issuer in British Columbia, Alberta, Ontario and Québec, and trades on the TSX Venture Exchange under the symbol SUP.

2011 Highlights

Awards of Distinction:

- Recognized as a TSX-Venture Top 50 Company.
- Awarded the Ontario Business Achievement Award for Corporate Governance by the Ontario Chamber of Commerce.

Financial:

- Completed $10 million private placement financing, January 2011.
- Completed $8.6 million charitable flow-through financing, January 2011.
- Received an aggregate of $3,875,000 from Lake Shore Gold Corp. ("Lake Shore") from the exercise of warrants and private placement investments.
- Received an aggregate of $2,300,000 from Rainy River Resources Ltd. ("Rainy River") from property option agreement and private placement investment.

Ti-pa-haa-kaa-ning (TPK):

- Completed (Rainy River – April 13th, 2011) a second phase, 2,900 m diamond drill program.
- Completed camp upgrades, fall 2011.
- Completed a second phase reverse circulation drill program, defining eight priority targets.
- Initiated a 7,500 m diamond drill program.

New Growth:

- Signed an Early Exploration Benefits Agreement with Neskantaga First Nation.
- Completed a first phase prospecting and overburden sampling program highlighted by the recovery of a large boulder that assayed 12.60 g/t gold, 111 g/t silver and 4.05% copper.
- Completed a high resolution airborne geophysical survey.
- Completed a second phase prospecting and overburden sampling program highlighted by:

a) Recovery of 100 mineralized boulders, 83 of which contain anomalous gold values, one containing coarse visible gold (727 g/t gold); and

b) Definition of the Keely Lake gold grain-in-till dispersal corridor (minimum width of 3.5 km).

- Defined the extension of the TPK gold-bearing shear zone onto the New Growth property (23 km long) through three, independent collaborating lines of evidence (geophysics, gold grain distribution and soil Arsenic values) and 5 associated gold diamond drill targets.
- Completed additional staking to capture head of the Keely Lake gold grain-in-till dispersal corridor and a new greenstone belt, source of the gold grains and mineralized boulders.
- Completed grid cutting and ground geophysics (induced polarization and magnetic).
- Initiated a 3,000 m 6-10 hole diamond drill program.

Croteau Est:

- Signed option agreement to acquire 100% of the Croteau Est property.
- Completed first phase exploration, reporting channel sample assays of 92.57 g/t gold over 1 m (or 12.8 g/t gold over 7.9 m) and 1.9 g/t gold over 33.8 m.
- Completed a 1,271 line kilometre heliborne airborne total field magnetic and gradient survey.
- Initiated a 5,000 m diamond drill program.
- Initial results: intersected significant gold-bearing shear zones, assays included 12.74 g/t gold over 5.85 m; 12.76 g/t gold over 8.75 m; and 3.05 g/t gold over 3.0 m.

LETTER FROM THE PRESIDENT & CEO

DRILLING FOR GOLD ON THE CANADIAN SHIELD

Thomas F. Morris
PhD., FGAC, PGeo.

President & CEO
Northern Superior Resources Inc.

Northern Superior Resources initiated and completed a very aggressive and successful exploration program in 2011. After raising $18.6 million in December 2010 and January 2011, the Company invested approximately $9.2 million in an exploration program focussed on discovering another marquee gold project such as our Ti-pa-haa-kaa-ning (TPK) gold property in northwestern Ontario. The results were spectacular and we identified at least seven projects on six 100% owned properties that have the potential to host a gold mine.

Seven gold projects are too many for Northern Superior to advance and therefore we will be seeking partners to advance four of these exceptional exploration opportunities (two on the Rapson Bay property, the Thorne Lake property and the New Growth property). This will allow Northern Superior to focus its human and financial resources on three exceptional properties: TPK, Croteau Est and New Growth Annex.

Rainy River Resources will be advancing the TPK Project. In a second phase of exploration, Rainy River has initiated a 7,500 m, 20–25 hole diamond drill program. Based on the positive exploration programs reported in late 2010 and in 2011, we look forward to the results from this current exploration program. Northern Superior will focus exploration on two new projects, the New Growth Annex and Croteau Est.

On the New Growth Annex gold property the Company discovered a new, mineralized greenstone belt. Coming off this belt, we defined a spectacular 3.5 km wide gold grain-in-till dispersal corridor (Keeley Lake Dispersal Corridor). In addition, we also recovered 100 large tabular, mineralized boulders associated with the greenstone belt and at the head of this gold grain dispersal corridor. Of particular interest is a boulder containing coarse visible gold, and 82 others that either assayed anomalous gold values or assayed anomalous silver and copper values. A ground geophysical survey subsequently identified several exceptional gold diamond drill targets. The Company is currently testing some of these (6-10 holes, approximately 3,000 m) with a diamond drill program.

The Company invested approximately $9.2 million in an exploration program focussed on discovering another marquee gold project such as our Ti-pa-haa-kaa-ning (TPK) gold property in northwestern Ontario. The results were spectacular and we identified at least seven projects on six 100% owned properties that have the potential to host a gold mine.

Croteau Est has developed into the Company's key gold exploration property. Tremendous progress has been made on this property since it was acquired in August 2011. We discovered an outcrop with visible gold and spectacular gold assays. We also encountered visible gold with impressive gold assays and intersections in the first 8 diamond drill holes completed prior to Christmas, 2011. An aggressive exploration program, including additional drilling, prospecting, bedrock and overburden mapping and sampling is now underway. We expect this exploration program to grow the size and potential of the gold-bearing shear zones already discovered and lead to the discovery of additional gold-bearing shear zones. Exploration on this property is extremely cost effective because of its location, and we will be aggressively advancing the project through 2012.

Northern Superior is well funded with $15.7 million in cash, sufficient funds to support our 2012 exploration programs and to extend them well into 2013. These funds will also continue to support our endeavours to identify additional gold exploration opportunities within regions highly prospective for gold deposits, either from our geoscientific data base or through our extensive network of prospectors and geoscientists.

We continue to excel in providing good corporate governance in all our activities, as we were recognized this past year as one of the top fifty TSX-V companies in 2011 and awarded the Ontario Business Achievement Award for Corporate Governance by the Ontario Chamber of Commerce.

2011 was an exceptional year and set the foundation for an even more exciting 2012. Staff and management are eagerly engaged in advancing our key projects and are looking forward to presenting the results to our shareholders as the year unfolds. We encourage all our shareholders to follow our progress through press release and quarterly updates on our website, www.nsuperior.com.

Sincerely, Tom Morris PhD., FGAC, PGeo.
President & CEO
Northern Superior Resources Inc.

TI-PA-HAA-KAA-NING GOLD PROPERTY

Ti-Pa-Haa-Kaa-Ning Gold Property

The Ti-pa-haa-kaa-ning (TPK) gold property is 100% owned by Northern Superior. Thus far, exploration has defined:

a) One of the largest gold grain-in-till dispersal aprons in North America, emanating from a potential fertile strike length of over 6 kilometres. Similar gold grain responses in other gold districts have consistently proven to represent an amalgamated response from a cluster of gold zones indicating a large gold system or district rather than a single gold zone (see press release, June 21, 2010).

b) Discovery of gold-bearing boulders that assay up to 92 g/t gold;

c) Intersection of 25.9 g/t gold over 13.5 m, reported from an early-stage diamond drill exploration program in late 2010; and

d) 8 diamond drill targets from two reverse circulation drill programs, these targets are associated with the strong, regionally extensive gold grain-in-till dispersal apron.

The property is located approximately 470 km northeast of Thunder Bay and 190 kilometres northeast of Pickle Lake, Ontario. The property is located in the Traditional Area of the First Nations Community of Neskantaga, which is situated about 30 km southwest of the Property on the southwest corner of Attawapiskat Lake. The property currently consists of 85 claims covering an area of 18,189 hectares.

2011

Exploration Highlights

Despite several disruptions to the exploration program in 2011, Rainy River (operator) completed the following exploration:

a) Completed (Rainy River – April 13, 2011) a second phase, 2,900 m diamond drill program;

b) Completed camp upgrades, fall 2011;

c) Completed a second phase reverse circulation drill program, defining a total of eight priority diamond drill targets based on distribution and concentration of gold grains on the bedrock surface, and better defined a bedrock geology map from bedrock chips (see press release, December 8, 2011); and

d) Initiated 7,500 m diamond drill program, January 16, 2012 (see press release, January 17, 2012).

Prospecting, bedrock and overburden mapping and sampling play a key role in understanding the mineral potential on any of the Company's exploration properties. Here a geologist completes a traverse through the bush.

Large, tabular gold-bearing boulders such as the one illustrated here are important in not only hosting gold, but by providing invaluable information regarding the associated rock type and mineralogy. A number of such boulders have been discovered in association with the gold grain-in-till dispersal apron, assaying as high as 92 g/t gold.

In June 2010, Northern Superior signed an option agreement with Rainy River Resources Limited (Rainy River) (see press release, June 24, 2010) where Rainy River can earn a 51% interest in the eastern half of the TPK property by spending $11 million over three years. The project is currently being operated under an Early Exploration Benefits Agreement with Neskantaga First Nation.

Community meetings are important to communicate and interact with First Nations. Taking time to explain exploration programs, employment opportunities and infrastructure development, listening carefully and understanding individual's concerns and needs go a long way to harboring a positive relationship between the Company and Community.

Diamond drilling intersected visible gold (circled). This core ran 25.9 g/t gold over 13.5 m. Rainy River is currently completing a 7,500 m diamond drill program, winter–spring 2012.

2012 OUTLOOK

Rainy River is currently executing the following programs:

a) Completion of a 20–25 hole, 7,500 m diamond drill program, 2nd Quarter 2012; and

b) Plan for additional exploration programs, based on results of the 2012 diamond drill program.

NEW GROWTH GOLD PROPERTY

New Growth Gold Property

The New Growth gold property is located approximately 470 km northeast of Thunder Bay and 190 km northeast of Pickle Lake, Ontario. The property is located in the Traditional Area of the First Nations Community of Neskantaga, which is situated about 30 km southwest of the Property on the southwest corner of Attawapiskat Lake. The property currently is operated under an Early Exploration Benefits Agreement with Neskantaga First Nation.

The New Growth gold property is 100% owned and operated by Northern Superior Resources Inc. This property originally represented the western part of the Ti-pa-haa-kaa-ning (TPK) gold property in northwestern Ontario. This area was excluded from the option agreement recently signed with Rainy River Resources Limited (Rainy River) for the TPK property (see press release, September 9th, 2010). Rainy River Resources has a right of first refusal on the New Growth area if Northern Superior should receive an acceptable bona fide arm's length third party offer to purchase the New Growth area. Ten claims are subject to an underlying 1.5% net smelter royalty payable to a third party, to a maximum of $2.5 million, and applies to diamonds only.

Prior to the fall of 2011 exploration program, Northern Superior staked an additional 23 claims (348 units; 5568 hectares)(New Growth Annex). This ground was staked to cover and provide a buffer around a second gold exploration target on the north end of the property (see press release, December 7th, 2011). This new land package (and gold target) is 100% Northern Superior Resources.

In an environment where roads are non-existent, helicopter and float/ski planes play a critical role in transporting field personnel and equipment from base camps to exploration sites. This helicopter has just dropped field geologists off for a day of overburden sampling.

Part of a large (2 x 3 m) boulder containing coarse visible gold (gold mineral circled in white).

2011

Exploration Highlights

The original intention of the 2011 exploration program initiated by Northern Superior was to define the extension of the gold-bearing shear zones discovered on the TPK side of the property onto the New Growth side. This was accomplished through defining related structure from an airborne geophysical survey and overburden heavy mineral and geochemical data. This exploration program was highly successful by not only establishing the extension of this shear zone (23 kms total length) and defining 5 exceptional drill targets, but also discovering a new gold-bearing greenstone belt on what is now the 100% owned New Growth Annex property.

a) Signed an Early Exploration Benefits Agreement with Neskantaga First Nation;

b) Completed a first phase prospecting and overburden sampling program highlighted by the recovery of a large boulder that assayed 12.60 g/t gold, 111 g/t silver and 4.05% copper (see press release September 14, 2011);

c) Completed a high resolution airborne geophysical survey;

d) Completed a second phase prospecting and overburden sampling program (see press release October 25, 2011) highlighted by:

i) Recovery of 100 mineralized boulders, 83 of which contain anomalous gold values, one of which contained coarse visible gold (727 g/t gold); and

ii) Definition of the Keely Lake gold grain-in-till dispersal corridor (minimum width of 3.5 km);

e) Defined the extension of the TPK gold-bearing shear zone onto the New Growth property (23 km long) through three, independent collaborating lines of evidence (geophysics, gold grain distribution and soil Arsenic values) and 5 associated diamond drill targets for gold mineralization (see press release December 6, 2011);

f) Completed additional staking to capture head of the Keely Lake gold grain-in-till dispersal corridor and a new greenstone belt, source of the associated gold grains and mineralized boulders (see press release December 7, 2011);

g) Completed grid cutting and ground geophysics (induced polarization and magnetic); and

h) Initiated a 3,000 m, 6-10 hole diamond drill program.

Quartz veins hosted in highly sheard monzonite containing bornite-chalcopyrite with 2-3% disseminated fine-grained arsenopyrite.

2012 OUTLOOK

a) Completion of the 6-10 hole, 3,000 m diamond drill program, 1st and 2nd Quarters 2012; and

b) Plan for additional exploration programs, based on results of diamond drill program.

CROTEAU EST GOLD PROPERTY

Croteau Est Gold Property

The Croteau Est property is located 30 km northeast of Chapais and is easily accessible by a forest access road, 25 km north off the paved highway to Oujé-Bougoumou (located between Chapais and Chibougamau). The property currently consists of 104 claims covering an area of approximately 3,700 hectares.

Coarse visible gold (gold colored flakes) in fly rock from Trench 3.

The Croteau Est property consists of drill ready targets including the known Croteau Est showing and the new Patrick and Dede gold showings. These showings are located within highly deformed and altered (ankeritized, sericitized, quartz veined and pyritized) basalt. Grab samples collected from these showings returned values of up to 15 g/t gold. These showings occur within major east-west structures south of the Faribault Fault which may be associated with the Gwillim Mine located 8.0 km to the east. The Croteau Est gold property ties onto the Gwillim Mine property.

Northern Superior Resources Inc. (Northern Superior) signed a formal option agreement with GL Services Inc. and Marc Bouchard of Chapais (the Optionors), Québec on August 24th, 2011 to earn a 100% interest in the Croteau Est property, west-central Québec.

To acquire 100% of this property, Northern Superior must meet the following obligations:

a) spending an aggregate of $1.7 million on exploration of the property over four years: $200,000 in year 1; $300,000 in year 2; $400,000 in year 3; and $800,000 in year 4;

b) making cash payments to the Optionors totaling $350,000: $35,000 upon signing the Letter of Intent (completed); $35,000 by the end of year 1; $40,000 by the end of year 2; $80,000 by the end of year 3; and $160,000 by the end of year 4;

c) issue to the Optionors $280,000 worth of common shares of the Company: $40,000 at the end of year 2; $80,000 by the end of year 3; and $160,000 by the end of year 4. The number of common shares issuable shall be based on the market price of the Company's shares at the time of issuance.

Northern Superior retains the right to accelerate any of the obligations.

Upon exercise of the option, the Optionors shall retain a 1% NSR on any commercial production with Northern Superior having the right to buyback 0.5% of the NSR for $1.5 million, at any time. The parties have agreed that any further claims that are staked within 1.5 km of the property will form part of the option and any production therefrom shall be subject to the NSR.

Trenching with back hoe equipment in an environment with a pervasive but thin overburden cover is a fast, cost effective way of exposing the Croteau Est gold-bearing shear zone. This allows easier interpretation of gold-related structures and mineralization.

2011

Exploration Highlights

Exploration evolved rapidly on the Croteau Est gold property this summer largely due to the relatively easy access afforded to the property through forestry roads. Several remarkable gold-bearing intersections were intercepted in diamond drilling completed prior to Christmas, 2011.

a) Signed an option agreement to acquire 100% of the Croteau Est property (see press release, August 24, 2011);

b) Completed first phase prospecting, trenching and channel sampling, bedrock mapping, ground geophysics, reported channel sample assays of 92.57 g/t gold over 1 m (or 12.8 g/t gold over 7.9 m; see press release October 10, 2011) and 1.9 g/t gold over 33.8 m (see press release September 21, 2011);

c) Completed a 1,271 line kilometre heliborne airborne total field magnetic and gradient survey;

d) Initiated a 5,000 m diamond drill program (see press release December 5, 2011);

e) Reported visible gold in two of the first eight holes completed prior to 2011 year end (see press release December 19, 2011); and

f) Intersected significant gold-bearing shear zones highlighted by assays that included 12.74 g/t gold over 5.85 m: 170.15–176 m; 12.76 g/t gold over 8.75 m: 181.75–190.5 m; and 3.05 g/t gold over 3.0 m: 240.7–243.7 m).

Field trips to site are an important way for Northern Superior geologists to receive input and to help the Company market the property.

2012 OUTLOOK

a) Completion of a 20–25 hole, 5,000 m diamond drill program, 2nd Quarter 2012;

b) Complete a prospecting, mapping, overburden sampling and ground geophysical program, 3rd and 4th Quarters 2012; and

c) Plan for a diamond drill program, 4th Quarter 2012.

RAPSON BAY GOLD PROPERTY

Rapson Bay Gold Property

The Rapson Bay gold property is 100% owned and operated by Northern Superior Resources Inc. This property was staked to cover the confluence of two fertile structures associated with the Stull-Wunnimun fault and the Wolf Bay shear zone, which display similar structural characteristics and potential mineralization as the Destor-Porcupine or Cadillac-Larder faults. Drilling programs on the Rapson Bay property during the fall of 2011 lead to the discovery of a gold-bearing porphyry system in the Shoal Lake area and a gold-bearing shear system in the Wynne Bay area.

The Rapson Bay property (100% NSR) is located in northwestern Ontario within the fertile Stull Lake Greenstone Belt (SLGB) of the Red Lake mining district. The property currently consists of 113 mining claims (26,768 hectares) and is located approximately 60 km north of the Community of Sachigo Lake First Nation with whom the Company has signed a Letter of Agreement supporting the exploration program.

2011

Exploration Highlights

SHOAL LAKE

On January 11, 2012, Northern announced that it intersected a mineralized porphyry system in the "Rapson Bay Shoal" area. Mineralization was intersected in drill hole WB-11-008C, consisting of three mineralized zones. The main zone assayed 1.83 g/t gold, 6.65 g/t silver, 1.08% copper, 0.059% molybdenum over 18.0 m. There are two adjoining peripheral zones, Peripheral Zone 1 assayed 0.27 g/t gold, 0.67 g/t silver, 0.22% copper and 0.009% molybdenum over 19.6 m; Peripheral Zone 2 assayed 0.37 g/t gold, 1.92 g/t silver, 0.32% copper and 0.017% molybdenum over 14.9 m (note this last width is a minimum value and additional sampling of core is required). The entire mineralized zone assayed 0.83 g/t gold; 3.07 g/t silver; 0.55% copper; 0.028% molybdenum over 52.5 m.

It is important to note that porphyry deposits are considered the world's most important source of copper and molybdenum and a key source of gold and silver. Most consist of copper values that range from 0.2 to more than 1%, molybdenum values that range from 0.005 to 0.03%, gold values that range from 0.004 to 0.35 g/t and silver values that range from 0.2 to 5 g/t.

Drill core is processed on site. A Northern Superior geologist makes observations on drill core mineralization.

Drill core processing facility. Core is transferred from the drill site to this facility where it is logged, sampled and packaged for shipment to a laboratory for assay work.

WYNNE BAY

On January 23, 2012, the Company announced that it had defined a potential 4 km fertile section of the Stull-Wunnimun fault in the Wynne Bay area of its 100% owned Rapson Bay gold property. All seven early exploration drill holes (1,850 m) contained intersections that returned positive assays for gold above background levels of 100 ppb, including an intersection of 32.6 g/t gold over 1.0 m from hole WB-011-05C. A total of 32 different mineralized zones were intersected within a variety of volcanic and metasediments with lengths ranging from 0.5–9.0 m clearly indicating the fertile nature of this target area.

This area of interest occurs within a splay of a southwest fault associated with the highly prospective Stull-Wunnimun fault. This fault extends west-northwest from the Wynne Bay area to the Monument Bay gold deposit, 28 kilometres to the west-northwest of Wynne Bay. The Wynne Bay area has a history of gold exploration where multiple gold showings have been previously reported, including a historic outcrop sample of 1.65 ounces per ton. It is important to note that a northwest trending Wolf Bay shear zone also extends across the property to the Little Stull Lake gold deposit.

2011

Exploration Highlights

a) Signed an exploration agreement with Sachigo Lake First Nation;

b) Expanded the property from 15 claims (3,840 hectares) to 111 claims (26,135 hectares);

c) Completed prospecting, mapping and overburden sampling programs;

d) Completed an airborne, total magnetic field survey consisting of 5,124 line kilometres;

e) Completed two, ground-based, induced polarization and magnetometric geophysical surveys, for a total of 28.6 line kilometres; and

f) Completed a 9 hole, 2,549 m diamond drill program that lead to the discovery of:

i) A new sheared gold-porphyry system, the main zone assayed 1.83 g/t gold, 6.65 g/t silver, 1.08% copper, 0.059% molybdenum over 18.0 m, including the peripheral zones 0.83 g/t gold, 3.07 g/t silver, 0.55% copper and 0.028% molybdenum over 52.5 m (see press release January 11, 2012); and

ii) Defined 4 km long gold-fertile section of the Stull-Wunnimun fault highlighted by an intersection that assayed 32.6 g/t gold over 1.0 m (Note: all seven holes returned positive assay values for gold above background values of greater than 100 ppb, thirty-two different mineralized zones were intersected – see press release January 23, 2012).

Helicopters and float planes are key means of transportation to access the Rapson Bay property.

2012 OUTLOOK

a) Retrieve core from site for further analysis; and

b) Assess all data from the 2011 exploration programs to identify targets for a diamond drill program.

THORNE LAKE GOLD PROPERTY

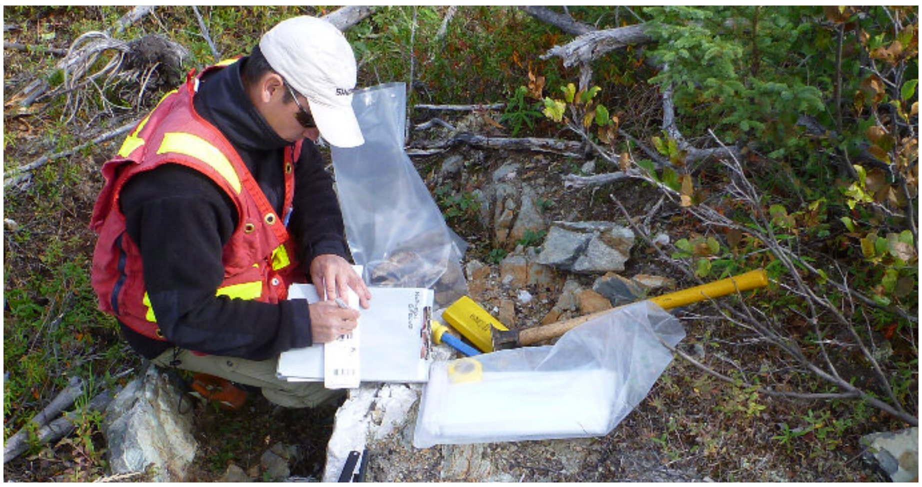
Thorne Lake Gold Property

In November 2011 Northern Superior reacquired a 100% interest in the Thorne Lake gold property (see press release November 17, 2012). To reacquire the property, Northern Superior made a payment of $500,000 and issued 750,000 common shares of Northern Superior to INV Metals. The common shares are subject to a hold period which expired on March 17, 2012.

2011

Exploration Highlights

a) Completed a termination agreement with INV Metals Corp. regarding the option agreement between INV Metals and Northern Superior, allowing Northern Superior to regain 100% control of the Thorne Lake gold property.



Northern Superior geologist making field notes and collecting samples of mineralized bedrock.

The Thorne Lake property is located approximately 720 km northwest of Thunder Bay and 360 km northwest of Pickle Lake. The property is situated over a portion of the Ellard Lake greenstone belt, 15.5 kilometres west of the Sachigo River gold mine, a past producer (1938–1943) that produced 52,560 ounces of gold from 46,416 tons of ore for an average grade of approximately 1.1 oz Au/ t (38.8 g Au/ t). The Ellard Lake greenstone belt is highly prospective for gold but to date has not been extensively explored.

The property currently consists of 44 claims covering an area of 10,752 hectares.

Much of the Company's exploration on this property was completed in 2009. At that time, an aggressive exploration program discovered: a) four new gold exploration targets based on the concentration and distribution of gold grain values (see press release October 27, 2009); b) four new gold showings (see press release August 25, 2009); and c) two gold-bearing shear structures (see press release October 29, 2009).

2012 OUTLOOK

a) Plan and initiate a prospecting program over key target areas, 2nd Quarter, 2012; and

b) Assess all data to identify targets for a diamond drill program

The Meston Lake property (100% NSR) covers 84 mining claims (19,688 hectares) and is located in northwestern-Ontario within the underexplored Black Bear Greenstone Belt. This greenstone belt is bounded by the regionally extensive Stull-Wunnumin Fault Zone (SWFZ) and features several structural similarities and hydrothermal alteration analogous to large gold deposits in the prolific Abitibi and Red Lake camps in the Superior Province. The property is located approximately 60 km north of the Community of Sachigo Lake First Nation with whom the Company had signed a Letter of Agreement to support this exploration program.

2011

Exploration Highlights

a) Expanded the property from 4 claims (1,024 hectares) to 84 claims (19,688 hectares);

b) Completed an airborne, total magnetic field survey consisting of 4,702 line kilometres;

c) Completed review of historic data, including diamond drill logs filed for assessment from Sherritt Gordon (1970's) drill program;

d) Recognized 5 different styles of mineralization on the property including: a) copper- gold; b) molybdenum- gold; c) magmatic copper- nickel- platinum group elements (PGE); d) VMS- type mineralization; and e) copper;

e) Completed prospecting and overburden sampling program;

f) Located historic Sherritt Gordon drill cores and sampled mineralized intersections; and

g) Completed four, ground-based, induced polariztion and magnetometric geophysical surveys for a total of 21.35 line kilometres.

Northern Superior geologist and prospector inspecting bedrock hand samples for rock identification and mineralization.

2012 OUTLOOK

a) Assess all data from the 2011 exploration programs to identify targets for a diamond drill program.

WACHIGABAU GOLD PROPERTY

Wachigabau Gold Property

Northern Superior has earned a 50% interest in the Wachigabau Gold Property and has formed a 50-50 Joint Venture for all commodities on the property with Matamec Explorations Inc. IAMGOLD retains certain back-in rights on some of the claims through agreements with Matamec.

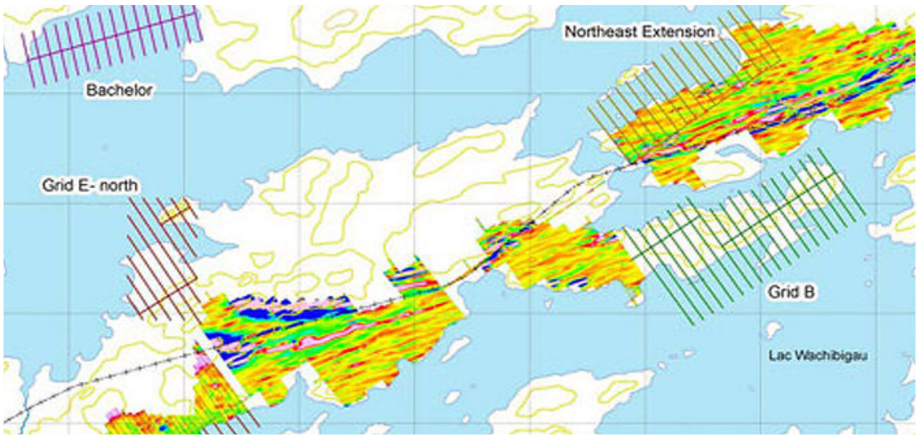
The signing of this agreement provided an opportunity to explore for gold and other commodities within an established gold exploration and mining and milling camp. The Wachigabau property is underlain by structures and geology associated with gold mineralization at the Bachelor Lake gold mine, located 10 kilometres to the southwest, and also overlies geology and structures associated with the former past-producing Lac Shortt gold mine 4.5 kilometres to the northeast.

2011

Exploration Highlights

a) Completed a 2,000 m, five hole diamond drill program.

The property is located 15 km northeast of the hamlet of Desmaraisville, 125 km northeast of the town of Lebel-sur-Quévillon and 225 km northeast of the city of Val-d'Or, Québec. Access to the property is possible by a series of old logging roads extending east from Highway 113 and an abandoned rail bed that crosses the north side of the property. The property can also be accessed by boat from Lac Wachigabau and Opawica. The Wachigabau property is strategically located between the Lac Shortt gold mine to the northeast and the Coniagas zinc, lead and silver mine and the Bachelor Lake gold mine and mill complex to the southwest. These mines are all associated with the Lake Opawica-Gwillim fault system. The property currently consists of 249 claims covering an area of 8,096 hectares.

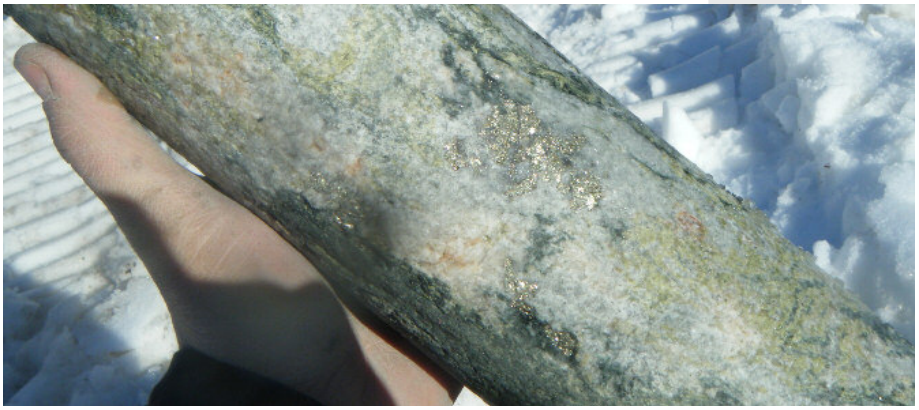


Geophysical grids, coupled with prospecting and overburden sampling programs define excellent gold diamond drill targets.

Sunset over Wachigabau Lake. This lake, coupled with an excellent network of forestry roads and an abandoned railway line, provides for excellent access to this property.

2012 OUTLOOK

a) Assess results from 2011 diamond drill program and plan future exploration programs based on these results.



Sonic bedrock core. Core consists of mineralized sheared material associated with the Kapunapotagen Fault that trends east-west, passing across both the Chibougamau River and Lamarck Creek Faults.

The Lamarck Creek gold property represents the amalgamation of the Company's former Lamarck Creek and Chibougamau gold properties. In November of 2011, Northern Superior signed an option agreement with Paget Minerals Corporation (Paget) granting Paget an option to acquire a 50% interest in the Lamarck Creek gold property. To exercise the Option, Paget must fund expenditures on the property of not less than, in aggregate, of $1,320,000. Paget has the right to accelerate expenditures to earn-in. Northern Superior will be the operator of the project during the Option period.

The property is located in north-central Québec within the Chapais-Chibougamau section of the Abitibi Greenstone Belt, approximately 40 km west of Chapais and 80 km west of Chibougamau, Québec. The western part of the property is cross-cut by the northeast trending Lamark Fault, a regional structure that extends southwest through the Lac Shortt and Bachelor Lake gold deposits. The Kapunapotagen Fault trends east-west passing across both the Chibougamau River and Lamarck Creek Faults. The property consists of 294 mining claims (16,464 hectares).

2011
Exploration Highlights

a) Combined property, formerly Chibougamau River and Lamarck Creek;

b) Completed sonic drill program consisting of 44 holes or 748 m (626 m of unconsolidated material and 12 m of bedrock);

c) Completed an overburden sampling program, samples submitted for gold grain analysis;

d) Signed an option agreement with Paget Minerals Corporation ("Paget"– see press release November 22, 2011); and

e) Completed a two hole, 618 m diamond drill program focused on a shear zone defined by airborne geophysics and an INAA gold till anomaly.

Lamarck Creek Gold Property

Mast head of a sonic drill rig. Sonic drilling proved very effective in sampling both overburden and rock material, defining 5 interesting diamond drill targets on the property.

2012 OUTLOOK

a) Assess results from 2011 diamond drill program and plan future exploration programs based on these results.

OTHER GOLD OPPORTUNITIES

Win Win and Lac Surprise Gold Properties

Northern Superior Resources has the ability to bring forward additional exploration programs from either its extensive geoscientific database or its network of prospectors, industry and/or government contacts. The Company is actively reviewing its database with the intention of identifying other highly prospective gold properties from those regions that geologically have either a proven history of gold discovery or regions with similar geological properties but underexplored. Currently, the Company has two additional gold properties that it is developing with the intention at this time to option out.

WIN WIN GOLD PROPERTY

In September of 2011 Northern Superior signed a second option agreement with GL Geoservice Inc. and Marc Bouchard of Chapais, Québec (collectively the "Optionors") with the same terms and conditions as those for Croteau Est, to acquire 100% of the Win Win gold property. At the time of signing, the Win Win gold property consisted of 12 claims covering approximately 636 hectares, located 21 kilometres southeast of Chapais, Québec. During 2011, Northern Superior completed a 1,446 line kilometre heliborne total field magnetic and gradient survey and is currently integrating this data into the projects database. Evaluation of this database will lead to proposed exploration programs and budgets for the property.

LAC SURPRISE GOLD PROPERTY

The Lac Surprise gold property represents the amalgamation of the Company's former Lac Surprise, Hazeur and Lespinay gold properties, now consisting of 889 claims or 50,776 hectares. Northern Superior began exploring this property in the fall 2010 and now has several excellent gold exploration targets defined. To further define these targets, the Company in 2011 completed an 88 km ground magnetic and induced polarization geophysical survey and a 4,141 line kilometre, heliborne total field magnetic and gradient survey. This data is currently being integrated into the projects database with the intent of developing an exploration program and budget.

AWARDS OF DISTINCTION

A 2011
TSX Venture 50
Company

NORTHERN SUPERIOR RESOURCES WAS RECOGNIZED AS A TSX VENTURE 50® COMPANY IN 2011.
TSX VENTURE 50 IS A TRADE-MARK OF TSX INC. AND IS USED UNDER LICENSE.

obaa

NORTHERN SUPERIOR RESOURCES INC. AWARDED THE ONTARIO BUSINESS ACHIEVEMENT AWARD, ICAO AWARD FOR CORPORATE GOVERNANCE, 2011.

GENERAL

The information in this Management's Discussion and Analysis, or MD&A, is intended to assist the reader in the understanding and assessment of the trends and significant changes in the results of operations and financial conditions of Northern Superior Resources Inc. (the "Company" or "Northern Superior"). This MD&A should be read in conjunction with the audited financial statements of the Company, including the notes thereto, for the year ended December 31, 2011 and the MD&A of such financial statements, and other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com.

The Company's audited financial statements for the year ended December 31, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and the audited financial statements for the year ended December 31, 2010 have been amended to reflect adjustments identified as a result of the conversion to IFRS. This MD&A has taken into account information available up to and including March 8, 2012.

Northern Superior is an exploration stage company engaged in the identification, evaluation, acquisition and exploration primarily of gold properties in Ontario and Québec. The Company is a reporting issuer in British Columbia, Alberta, Ontario and Québec and trades on the TSX Venture Exchange under the symbol SUP.

This MD&A contains forward-looking statements. Please refer to the cautionary language at the end of this document.

HIGHLIGHTS

Awards of Distinction:

- Recognized as one of the top ten companies in the mining and exploration category of the "TSX Venture 50 Company" awards in 2011.
- Awarded the 2011 Ontario Business Achievement Award for Corporate Governance by the Ontario Chamber of Commerce.

Financial:

- Completed $10 million private placement financing in January 2011.
- Completed $8.6 million flow-through financing in January 2011.
- Received an aggregate of $1,800,000 from Rainy River Resources Ltd. ("Rainy River") from property option agreement on Ti-pa-haa-kaa-ning property and private placement investment.
- Received $1.1 million from the exercise of private placements warrants in 2011.
- Spent $9.2 million directly on exploration and evaluation of properties in 2011.
- Option partners spent $4.6 million on Northern Superior-optioned properties in 2011.
- Approximately $17 million cash in treasury (March 2012).

Ti-pa-haa-kaa-ning (TPK):

- Rainy River, the option partner and operator on the TPK property completed the following exploration:
    a) Completed (Rainy River – April 13th, 2011) a second phase, 2,900 m diamond drill program
    b) Completed camp upgrades, fall 2011
    c) Completed a second phase reverse circulation drill program, defining a total of eight priority diamond drill targets based on distribution and concentration of gold grains on the bedrock surface, and better defined a bedrock geology map from bedrock chips (see press release, December 8, 2011)
    d) Initiated 7,500 m diamond drill program, January 16th, 2012 (see press release, January 17, 2012).

Croteau Est:

- Signed an option agreement to acquire 100% of the Croteau Est property (see press release, August 24, 2011).
- Complete first phase prospecting, bedrock mapping, ground geophysics, reported assays of 92.57 g/t gold over 1 m (or 12.8 g/t gold over 7.9 m; see press release October 10, 2011) and 1.9 g/t gold over 33.8 m (see press release September 21, 2011).
- Completed a 1,271 line kilometre airborne geophysical survey.
- Initiated a 5,000 m diamond drill program (see press release December 5, 2011).
- Reported visible gold in two of the first eight holes completed prior to 2011 year-end (see press release December 19, 2011).
- Intersected significant gold-bearing shear zones highlighted by assays that included 12.74 g/t gold over 5.85 m: 170.15 – 176 m; 12.76 g/t gold over 8.75 m: 181.75 – 190.5 m; and 3.05 g/t gold over 3.0 m: 240.7 – 243.7 m).

New Growth:

- Signed an Early Exploration Benefits Agreement with Neskantaga First Nation.
- Completed a first phase prospecting and overburden sampling program highlighted by the recovery of a large boulder that assayed 12.60 g/t gold, 111 g/t silver and 4.05% copper (see press release September 14, 2011).
- Completed a high resolution airborne geophysical survey.
- Completed a second phase prospecting and overburden sampling program (see press release October 25, 2011) highlighted by:
    - e) Recovery of 100 mineralized boulders, 83 of which contain anomalous gold values, one of which contained coarse visible gold (727 g/t gold).
    - f) Definition of the Keely Lake gold grain-in-till dispersal corridor (minimum width of 3.5 km).
- Defined the extension of the TPK gold-bearing shear zone onto the New Growth property (23 km long) through three, independent collaborating lines of evidence (geophysics, gold grain distribution and soil Arsenic values) and 5 associated diamond drill targets for gold mineralization (see press release December 6, 2011).
- Completed additional staking to capture head of the Keely Lake gold grain-in-till dispersal corridor and a new greenstone belt, source of the associated gold grains and mineralized boulders (see press release December 7, 2011).
- Completed grid cutting and ground geophysics (induced polarization and magnetic).
- Initiated a 3,000 m, 6-10 hole diamond drill program.

Rapson Bay:

- Signed an exploration agreement with Sachigo Lake First Nation.
- Expanded the property from 15 claims (3,840 hectares) to 111 claims (26,135 hectares).
- Completed prospecting, mapping and overburden sampling programs.
- Completed an airborne, total magnetic field survey consisting of 5,124 line kilometres.
- Completed a ground-based, induced polarized geophysical survey, consisting of 5 lines, each line 1.2 km long and spaced 100 m apart.
- Completed a 9 hole, 3,000 m diamond drill program that lead to the discovery of:
    - a) A new gold- porphyry system, the main zone assayed 1.83 g/t gold, 6.65 g/t silver, 1.08% copper, 0.059% molybdenum over 18.0 m, including the peripheral zones 0.83 g/t gold, 3.07 g/t silver, 0.55 % copper and 0.028 % molybdenum over 52.5 m (see press release January 11, 2012).
    - b) Defined 4 km long gold-fertile section of the Stull Wunnimun fault highlighted by an intersection that assayed 32.6 g/t gold over 1.0 m (Note: all seven holes returned positive assay values for gold above background values, thirty-two different mineralized zones were intersected (see press release January 23, 2012).

Meston Lake:

- Expanded the property from 4 claims (1,024 hectares) to 84 claims (19,688 hectares).
- Completed an airborne, total magnetic field survey consisting of 4,702 line kilometres.
- Completed review of all historic data, including diamond drill logs filed for assessment from Sherritt Gordon (1970s) drill program.
- Recognized 5 different styles of mineralization on the property including:
    - a) copper-gold;
    - b) molybdenum-gold;
    - c) magmatic copper-nickel-platinum group elements (PGE);
    - d) VMS-type mineralization; and
    - e) copper.
- Completed prospecting and overburden sampling program.
- Located key Sherritt Gordon drill collar locations and associated drill core, which was logged and sampled.
- Completed cutting grids and ground geophysical surveys over four Sherritt Gordon targets.

Thorne Lake:

- Completed termination agreement with INV Metals Corp. regarding the option agreement between INV Metals and Northern Superior, allowing Northern Superior to regain 100% control of the Thorne Lake gold property, northwestern Ontario.

Wachigabau:

- Completed a 2,000 m, six hole diamond drill program.

Lamarck Creek:

- Combined property, formerly Chibougamau River and Lamarck Creek.
- Completed sonic drill program consisting of 44 holes or 748 m (626 m of unconsolidated material and 12 m of bedrock.
- Completed an overburden sampling program, samples submitted for gold grain analysis.
- Signed an option agreement with Paget Minerals Corporation ("Paget"– see press release November 22, 2011).
- Completed a two hole, 618 m diamond drill program focused on a shear zone defined by airborne geophysics and an INAA gold till anomaly.

Surprise:

- Combined property, formerly Surprise, Hazeur and Lespinay.
- Completed an 88 km ground magnetic and induced polarized geophysical survey.
- Completed a 4,141 line km airborne magnetic survey.

Win Win:

- Completed agreement to acquire project (see press release, September 1, 2011).
- Completed a 1,446 line km airborne magnetic survey.

OUTLOOK

During December 2010 and January 2011 the Company raised $18.6 million in equity financings. A decision was made to invest a portion of those funds through 2012 into Northern Superior's geoscientific database with the intent of identifying at least one more additional "TPK-like" opportunity. In fact, from the 2011 exploration program the Company has now identified 7 such opportunities on 6 properties: TPK, Croteau Est, New Growth, New Growth Annex, Thorne Lake, Rapson Bay (Shoal and Wynne Bay). Northern Superior will focus its exploration efforts on three of these properties (TPK, New Growth Annex and Croteau Est) and intends to option out all properties.

Ti-pa-haa-kaa-ning:

- Completion of a 20–25 hole, 7,500 m diamond drill program, 2nd Quarter 2012.
- Plan for additional exploration programs, based on results of diamond drill program.

Croteau Est Property:

- Completion of a 20–25 hole, 5,000 m diamond drill program, 2nd Quarter 2012.
- Complete a prospecting, mapping, overburden sampling and ground geophysical program, 3rd and 4th Quarters 2012.
- Plan for a diamond drill program, 4th Quarter 2012.

New Growth:

- Completion of a 6-10 hole, 3,000 m diamond drill program, 1st and 2nd Quarters 2012.
- Plan for additional exploration programs, based on results of diamond drill program.

Rapson Bay:

- Retrieve core from site for further analysis.
- Assess all data from the 2011 exploration programs to identify targets for a diamond drill program.

Meston Lake:

- Assess all data from the 2011 exploration programs to identify targets for a diamond drill program.

Thorne Lake:

- Plan and initiate a prospecting program over key target areas, 2nd Quarter, 2012.
- Assess all data to identify targets for a diamond drill program.

Lamarck Creek:

- Assess results from 2011 diamond drill program and plan future exploration programs based on these results.

Lac Surprise:

- Assess results from the 2011 exploration programs and plan future exploration based on these results.
- Reconciliation of mineral claim holdings on completion of overburden gold grain and geochemical analysis.

Northern Superior Resources Proprietary Database

- Continue review of the Company's proprietary database to identify and generate projects.

Northern Superior has a number of 100% owned properties (see Company website, www.nsuperior.com) within the Stull-Wunnimun and Chibougamau gold districts of Ontario and Québec respectively that were identified and developed from the Company's extensive geoscientific database. The Company is currently seeking to option out a number of these properties.

RESULTS OF OPERATIONS

In the year ended December 31, 2011, the Company incurred expenditures of $9,276,085 (2010 – $8,807,106) on exploration and evaluation properties. The net increase in exploration and evaluation properties during the year was $4,375,195 (2010 – $8,415,985), after accounting for cash payments and recoveries, write-offs and adjustments. In 2011 Northern Superior received a $1,300,000 cash payment from Rainy River in regard to the TPK property. The Company also received a total of $389,402 in option payments and cash recoveries in regard to the Wachigabau, Thorne Lake and Lamarck Creek properties.

In 2011 the Company conducted exploration field programs on nine properties, with four projects accounting for the majority of expenditures as follows:

	2011 Expenditures
Rapson Bay	$ 3,049,558
Meston Lake	1,571,187
New Growth	1,058,270
Croteau Est	977,188

A net loss of $3,712,189 (2010 – $1,239,935) was recorded for the year ended December 31, 2011. The net loss amount includes recognition for accounting purposes of $1,885,736 (2010 – Nil) in flow-through share income, in regard to the January 2011 flow-through share financing completed by the Company.

In the year ended December 31, 2011, the Company wrote off its investments in the Ville Marie and Ellard Lake properties and recorded write-off expenses of $2,110,626 and $151,060, respectively, which amounts were included in the Company's statement of loss for the year. The Wachigabau property was also written down by $956,958, which was also added to the Company's write-off expenses for the year. These property write-downs were determined at the end of the year, following asset impairment reviews by management.

Operating expenses of $2,657,515 (2010 – $1,491,115) were significantly higher than last year primarily due to increases in three expense categories: office expenses, shareholder information costs and share-based payments. Office expenses increased to $1,432,964 (2010 – $819,944) due to increases in personnel costs and non-cash share-based payments attributed to administration staff (see table below). In 2011, the Company spent $157,884 on computer hardware and software purchases, which were primarily used to equip the additional personnel hired by the Company during the year. The Company's personnel roster doubled from 7 at the end of 2010 to 14 at the end of 2011, not including seasonal employees.

Shareholder information costs of $614,423 (2010 – $329,875), increased due to increased conference and trade show costs, higher printing costs and website redevelopment costs.

The Company reports share-based payments by allocating such expenses to office expense, consulting fees, and to exploration properties for employees involved in exploration work. The allocation of share-based payments for the years ended December 31, 2011 and 2010 were as follows:

Years ended December 31,	**2011**	2010
Exploration and evaluation properties	**$ 359,764**	$ 107,923
Consulting fees	**266,984**	99,146
Office expense	**213,028**	144,232
Total share-based payments	**$ 839,776**	$ 351,301

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial data has been prepared in accordance with IFRS for 2011 and 2010, and in accordance with Canadian generally accepted accounting principles for 2009. This table should be read in conjunction with the Company's audited financial statements.

Financial Results:

Years ended December 31,	**2011**	2010	2009
	(IFRS)	(IFRS)	(GAAP)
Interest income	**$ 248,132**	$ 23,549	$ 3,769
Net (loss) income	**(3,712,189)**	(1,239,935)	(75,437)
(Loss) income per share* – basic and diluted	**(0.02)**	(0.01)	(0.00)

Financial Position:

As at December 31:	**2011**	2010	2009
	(IFRS)	(IFRS)	(GAAP)
Working Capital	**$ 15,776,704**	$ 6,902,039	$ 5,299,180
Exploration and Evaluation Properties	**22,415,623**	18,040,428	9,600,818
Future Income Tax Assets	**–**	–	1,293,700
Total Assets	**40,292,058**	25,142,831	16,676,839
Share Capital	**62,099,111**	46,183,099	30,521,027
Reserves – stock options and warrants	**5,154,196**	4,087,055	4,017,081
Reserves – available-for-sale investments	**–**	37,500	192,375
Deficit	**(29,055,012)**	(25,342,823)	(18,190,046)
Number of shares issued and outstanding	**185,522,798**	156,611,458	100,570,691

**(Loss) Income per share is calculated based on the weighted-average number of shares outstanding.*

QUARTERLY FINANCIAL INFORMATION

Fiscal Quarter ended	**Dec. 31, 2011**	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011
Interest income	**$ 56,482**	$ 65,898	$ 68,829	$ 56,923
Net income (loss)	**(3,562,016)**	313,003	64,587	(527,763)
Net income (loss) per share* – basic and diluted	**(0.01)**	0.00	(0.00)	(0.00)

Fiscal Quarter ended	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010
Interest income	$ 11,043	$ 3,940	$ 5,448	$ 3,118
Net income (loss)	(440,807)	(344,052)	(314,306)	(140,770)
Net income (loss) per share* – basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)

** Basic and diluted (loss) income per share is calculated based on the weighted-average number of shares outstanding.*

In the quarter ended December 31, 2011, the Company incurred expenditures of $4,210,817 on exploration and evaluation properties. In November 2011, the Company reacquired 50% of the Thorne Lake property by making a cash payment of $500,000 and issuing 750,000 shares, with a deemed value of $172,500. Both these amounts were charged to acquisition costs of the project.

A net loss of $3,562,016 was recorded for the three months ended December 31, 2011, compared to a loss of $440,807 for the three months ended December 31, 2010. The largest component of the loss was due to the $3,218,644 (2010 – $Nil) write-offs on the Ville Marie, Ellard Lake and Wachigabau exploration and evaluation properties at the end of 2011. Operating expenses of $832,415 (2010 – $589,918) were higher than the same period last year primarily as a result of increases in office expenses and share-based payments. A flow-through share income of $432,560 (2010 – $Nil) was recognized for the three months ended December 31, 2011, as a result of the Company incurring qualifying Canadian exploration expenditures.

In the quarter ended September 30, 2011, the Company incurred expenditures of $2,545,071 on exploration and evaluation properties, and completed a $500,000 private placement, the second of three private placements from Rainy River stipulated in last year's TPK option agreement. In the quarter ended September 30, 2011, the Company also received $1,100,000, resulting from the exercise of 5,500,000 warrants.

Net income of $313,003 was recorded for the three months ended September 30, 2011, compared to a loss of $344,052 at September 30, 2010. Operating expenses of $623,483 (2010 – $340,993) were higher than the same period last year primarily as a result of increases in office expenses and share-based payments. A flow-through share income of $870,706 was recognized for the three months ended September 30, 2011 as a result of the Company incurring qualifying Canadian exploration expenditures.

Quarterly operating costs were consistently higher in 2011 compared to the previous year, due to increased administration costs required to support the Company's increasing resource property portfolio and expanding exploration programs. This was obscured by the large fluctuations caused by share-based payments, gains on the sale of investment securities, and flow-through share renunciations. A significant factor in the increased losses in Q4 2011 and Q4 2010 was share-based payments recorded from incentive stock options granted during those quarters. The Company realized gains from the sale of investment securities of $115,864 in Q1 2010 and $141,399 in Q4 2010. As a result of the change in accounting policy related to flow-through shares, a $1,293,700 tax recovery on renunciation of flow-through share exploration expenditures was recorded in Q1 2010, rather than Q4 2009, with an offsetting income tax expense of an equal amount.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company is not in commercial production on any of its mineral properties and accordingly, it does not generate cash from operations. The Company finances its activities by raising capital through the equity markets. At December 31, 2011 the Company had $17,094,074 cash and no debt, other than current trade debt.

In the year ended December 31, 2011, the Company's principal sources of cash were:

- Private placement completed in January 2011 for gross proceeds of $10,000,000.
- Flow-through private placement completed in January 2011 for gross proceeds of $8,637,820.
- Payment from Rainy River related to option agreement on TPK property for $1,300,000.
- Private placement from Rainy River related to option agreement on TPK property, completed in July 2011 for gross proceeds of $500,000.
- Proceeds from exercise of stock options and warrants of $1,411,187.

Cash used in operating activities during the year ended December 31, 2011 was $1,814,225 (2010 – $1,286,481). Depreciation, share-based payments, a gain on sale of investment (marketable securities), flow-through share income and changes in non-cash working capital items make up the amounts that reconcile the statement of loss for the year to the statement of cash flows from operating activities.

In January 2011, the Company sold 150,000 shares of Forum Uranium Corp. ("Forum") for cash proceeds of $45,000.

Prepaids and receivables at December 31, 2011 include $348,936 in refundable government sales tax credits, $184,306 in option earn-in reimbursement on the Wachigabau project, $48,456 in government of Québec refundable mining credits, and $171,973 in accrued interest income.

The Company's principal activity is the acquisition and exploration of exploration and evaluation properties. During the year ended December 31, 2011, the Company incurred expenditures of $9,276,085 (2010 – $8,807,106) on resource properties, with $8,238,557 representing the cash portion of resource property expenditures incurred during the year (2010 – $4,631,418). The Company's investment policy is to keep its cash on deposit in an interest bearing Canadian chartered bank account. The Company does not hold any asset-backed commercial paper.

OUTSTANDING SHARE CAPITAL

At the beginning of 2011, Northern Superior had 156,611,458 outstanding common shares and 7,753,900 outstanding options to acquire Company shares, of which 4,023,900 of these options were vested and exercisable. The following shares were issued since the beginning of 2011:

Issued and outstanding	No. of Shares
Balance, January 1, 2011	**156,611,458**
Common shares issued for exploration and evaluation property	**750,000**
Exercise of stock options	**1,134,332**
Exercise of warrants	**5,600,000**
Exercise of compensation options	**807,350**
Private placements (January 2011 and July 2011)	**20,619,658**
Balance, December 31, 2011	**185,522,798**

The following is a summary of stock options outstanding at December 31, 2011, of which 3,986,228 were exercisable:

Number of Options	Exercise Price
2,454,568	$0.01 – $0.19
4,035,000	$0.20 – $0.39
2,900,000	$0.40 – $0.59
435,000	$0.60 – $0.79
9,824,568	

The following is a summary of Compensation Options outstanding:

Date issued	Number of Options	Exercise price	Expiry date
January 12, 2011	750,000	$ 0.80	January 12, 2012
January 27, 2011	403,846	$ 0.80	January 27, 2012
	1,153,846		

RELATED PARTY TRANSACTIONS

For the purpose of this disclosure, related parties are defined as the officers and directors of the Company.

Years ended December 31,	**2011**	2010
Management and other fees	**$ 112,451**	$ 99,050
Salaries and wages	**973,312**	394,232
Share-based payments	**598,647**	192,603
	$ 1,684,410	$ 685,885

All related party transactions are in the normal course of operations and measured at the exchange amount agreed to between the related parties.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet financing arrangements.

CHANGES IN ACCOUNTING POLICIES – INITIAL ADOPTION

Adoption of International Financial Reporting Standards ("IFRS")

The Company's audited financial statements as at and for the years ended December 31, 2011 and 2010 have been prepared in accordance with IFRS as issued by the IASB. Previously, the Company prepared its 2010 annual financial statements in accordance with Canadian GAAP.

IFRS 1 requires the consistent and retrospective application of IFRS accounting policies as at and for the year ended December 31, 2010 and an opening Statement of Financial Position as at January 1, 2010. To assist with the transition, the provisions of IFRS 1 allows for certain mandatory and optional exemptions for first-time adopters to alleviate the full retrospective application of IFRS. The Company has elected to apply the following relevant exemptions:

Share-based Payment – IFRS 1 encourages, but does not require, first time adopters to apply IFRS 2, Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before January 1, 2010. The Company elected not to apply IFRS 2 to equity instruments that vested prior to January 1, 2010.

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS. A summary of IFRS 1 mandatory and option exemptions are described in Note 18 to the annual financial statements.

The IFRS accounting policies are set forth in Note 3 to the annual audited financial statements. A detailed explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flow, including the reconciliations required by IFRS 1, is presented in Note 18 to the financial statements.

Canadian GAAP to IFRS differences:

(a) IFRS 2, Share-based payment

The Company elected to apply IFRS 2 only to those stock options granted subsequent to November 7, 2002 and not vested before January 1, 2010. In addition, the Company has adopted an accounting policy to capitalize certain of the share-based payments related to stock options granted to employees and non-employees for work performed on the Company's exploration and evaluation properties as a component of those properties. This resulted in an increase in exploration and evaluation properties, increase of stock options reserve, and a net decrease in deficit as at January 1, 2010 of $23,625, $19,029 and $4,596, respectively, and a further increase in exploration and evaluation properties, a further increase in stock options reserve and a decrease in share-based payment expense of $107,923, $73,783 and $34,140, respectively, for the year ended December 31, 2010.

(b) Flow-through shares

Flow-through shares are a unique Canadian tax incentive which is the subject of specific guidance under Canadian GAAP. Under Canadian GAAP, the Company accounted for the issue of flow-through shares in accordance with the provisions of CICA Emerging Issues Committee Abstract 146, "Flow-through Shares". At the time of issue, the funds received are recorded as share capital. At the time of the filing of the renunciation of the qualifying flow-through expenditures to investors, the Company recorded a deferred tax liability with a charge directly to shareholders' equity. Also under Canadian GAAP, a portion of the deferred tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statements of operations.

IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is initially recorded as a flow-through liability and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through liability is reversed, with any difference charged to the statements of operation as deferred tax expense. A portion of the deferred tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will reduce the deferred tax liability and record a deferred tax recovery.

The change in accounting policy related to flow-through shares resulted in an increase in share capital, an increase in deficit and a decrease in deferred tax asset as at the Transition Date of $4,623,738, $5,917,438 and $1,293,700, respectively, and an increase in share capital as at December 31, 2010 of $1,293,700.

(c) Reclassification within Equity section

Under Canadian GAAP, "Contributed surplus" was used to record the issuance of warrants and stock options. Upon adoption of IFRS, the balances in "Contributed surplus" have been reclassified to "Stock options reserve" and "Warrants reserve". In addition, the Company reclassified the balance of the "Accumulated other comprehensive income" that existed under Canadian GAAP into "Available-for-sale investments reserve".

FINANCIAL INSTRUMENTS

The Company classifies all financial instruments as either available-for-sale, financial assets or liabilities at fair value through profit or loss ("FVTPL"), loans and receivables or other financial liabilities. Loans and receivables and other financial liabilities are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in accumulated other comprehensive income. These amounts will be reclassified from shareholders' equity to net income when the investment is sold or when the investment is impaired and the impairment is considered less than temporary. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized on the statement of loss and deficit.

The Company has designated its cash as FVTPL, which is measured at fair value. Exploration advances and other receivables are classified as loans and receivables, which are measured at amortized cost. Trade payables are classified as other financial liabilities which are measured at amortized cost.

MANAGEMENT OF CAPITAL

The Company manages its cash, common shares and stock options as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.

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

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

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account.

Use of Proceeds from Financings

Planned Use of Proceeds	***Actual Use of Proceeds to December 31, 2011***
January 2011 Private Placement Financing:	
• $10,000,000 to be used for exploration on the Company's gold projects and general corporate purposes.	• $1,392,233 has been applied to financing expenses. • $2,174,884 has been applied to operating activities. • $4,344,419 has been applied to resources properties and investing activities. • $2,088,464 remains to be spent.
January 2011 Flow-Through Financing:	
• $8,637,480 to be used for exploration on the Company's gold projects in Ontario and Québec.	• $5,112,736 has been used for exploration. • $3,524,744 remains to be spent.

CORPORATE GOVERNANCE

The Company's Board of Directors follows corporate governance policies for public companies to ensure transparency and accountability to shareholders.

The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and audited annual financial statements prior to their submission to the Board of Directors for approval. The Audit Committee, comprised of three independent directors, meets with management on a quarterly basis to review the financial statements, including the MD&A, and to discuss other financial, operating and internal control matters.

CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Management is also responsible for the design and maintenance of effective internal control over financial reporting to provide reasonable assurance regarding the integrity and reliability of the Company's financial information and the preparation of its financial statements in accordance with Canadian generally accepted accounting principles. Management maintains appropriate information systems, procedures and controls to ensure integrity of the financial statements and maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The Company has a Disclosure Policy and a Disclosure Committee in place to mitigate risks associated with the disclosure of inaccurate or incomplete information.

FORWARD–LOOKING STATEMENTS

Some of the statements in this document constitute "forward-looking statements". Where Northern Superior expresses an expectation or belief as to future events or results, including management plans and objectives, and projections of exploration results, such expectation or belief is expressed in good faith and is believed to have a reasonable basis. The Company makes no representation that reasonable business people in possession of the same information would reach the same conclusions. While these statements represent our best current judgment, they are subject to risks and uncertainties that could cause actual results to vary, the specifics of which are detailed in disclosures with the heading "Risk Factors" in the Company's periodic filings with securities regulators. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Forward-looking statements in this MD&A are made as of the date of this MD&A or, in the case of documents incorporated by reference herein, as of the date of such documents, and Northern Superior does not assume the obligation to update any forward-looking statement.

QUALIFIED PERSONS

Mr. Casey Hetman is currently the Company's Qualified Person ("QP") (as defined in National Instrument 43-101, "Standards of Disclosure for Mineral Projects") for all projects. As the Company's QP, Mr. Hetman has prepared or supervised the preparation of the scientific or technical information for the properties as stated in this MD&A.

ADDITIONAL INFORMATION

Additional information is provided in the Company's audited financial statements for the year ended December 31, 2011. These documents are available on SEDAR at www.sedar.com.

To the Shareholders of Northern Superior Resources Inc.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

James Stafford

Chartered Accountants

Vancouver, Canada
8 March 2012

STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

As at	**December 31 2011**	December 31 2010	January 1 2010
		note 18	note 18
Assets			
Current assets			
Cash and cash equivalents	**$ 17,094,074**	$ 6,708,529	$ 5,066,616
Available-for-sale investments *note 4*	**–**	45,000	–
Prepaids and receivables *note 5*	**776,393**	326,510	368,966
	17,870,467	7,080,039	5,435,582
Non-current assets			
Available-for-sale investments *note 4*	**–**	–	293,625
Receivables *note 5*	**–**	8,113	21,598
Equipment *note 6*	**5,968**	14,251	31,516
Exploration and evaluation properties *note 7*	**22,415,623**	18,040,428	9,624,443
	22,421,591	18,062,792	9,971,182
	$ 40,292,058	$ 25,142,831	$ 15,406,764
Liabilities			
Current			
Trade payables and accrued liabilities *note 8*	**$ 793,602**	$ 178,000	$ 136,402
Flow-through share liability *note 8*	**1,300,161**	–	–
	2,093,763	178,000	136,402
Equity			
Share capital *note 10*	**62,099,111**	46,183,099	35,144,765
Stock options reserve *note 10(f)*	**3,545,518**	2,844,369	2,531,789
Warrants reserve *note 10(f)*	**1,608,678**	1,242,686	1,504,321
Available-for-sale investments reserve *note 4*	**–**	37,500	192,375
Deficit	**(29,055,012)**	(25,342,823)	(24,102,888)
	38,198,295	24,964,831	15,270,362
	$ 40,292,058	$ 25,142,831	$ 15,406,764

Nature of operations *note 1*
Commitments *note 15*
Subsequent events *note 19*

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON MARCH 8, 2012

Alan C. Moon
Director

Arnold Klassen
Director

See accompanying notes to financial statements

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

Years ended December 31,	**2011**	2010
		note 18
Expenses		
Consulting fees *note 10(d)*	**$ 373,879**	$ 199,121
Depreciation *notes 6 and 7*	**8,283**	1,950
Interest	**–**	369
Legal and accounting	**151,478**	98,697
Office expense *note 10(d)*	**1,432,964**	819,944
Shareholder information	**614,423**	329,875
Travel	**76,488**	41,159
Loss before the undernoted	**(2,657,515)**	(1,491,115)
Interest income	**248,132**	23,549
Capital taxes	**(7,398)**	–
Gain on sale of available-for-sale investments *note 4*	**37,500**	257,263
Flow-through share income *note 8*	**1,885,736**	–
Flow-through share interest expense	**–**	(29,632)
Write-off of exploration and evaluation properties *note 7*	**(3,218,644)**	–
Net loss for the year	**$ (3,712,189)**	$ (1,239,935)
Other comprehensive income (loss)		
Unrealized gain on available-for-sale investments *note 4*	**–**	102,388
Reclassification of gains on available-for-sale investments included in net income	**(37,500)**	(257,263)
Comprehensive loss for the year	**$ (3,749,689)**	$ (1,394,810)
Net loss per share – basic and diluted		
Basic	**$ (0.02)**	$ (0.01)
Diluted	**$ (0.02)**	$ (0.01)
Weighted-average number of shares outstanding		
Basic	**179,317,064**	121,000,205
Diluted	**179,317,064**	121,000,205

(Expressed in Canadian dollars)

	Share Capital		Reserves				
	Number of Shares	Amount	Stock options	Warrants	Available-for-sale investments	Deficit	Total Equity
Balance, January 1, 2010 *note 18*	100,570,691	$ 35,144,765	$ 2,531,789	$ 1,504,321	$ 192,375	$ (24,102,888)	$ 15,270,362
Common shares issued for exploration and evaluation property *notes 7 and 10(b)*	25,000,000	3,250,000	–	–	–	–	3,250,000
Common shares issued for cash *note 10(b)*	3,125,000	625,000	–	–	–	–	625,000
Common shares issued on exercise of stock options *note 10(c)*	551,100	97,036	(38,721)	–	–	–	58,315
Common shares issued on exercise of warrants *note 10(e)*	25,311,335	6,804,238	–	(1,004,425)	–	–	5,799,813
Common shares issued on exercise of compensation options *note 10(e)*	2,053,332	286,610	–	(60,210)	–	–	226,400
Warrants granted in exchange for exploration and evaluation property *notes 7 and 10(f)*	–	–	–	803,000	–	–	803,000
Share-based payments *note 10(d)*	–	–	351,301	–	–	–	351,301
Share issue costs	–	(24,550)	–	–	–	–	(24,550)
Unrealized income on available-for-sale investments *note 4*	–	–	–	–	102,388	–	102,388
Reclassification of gain on available-for-sale investments *note 4*	–	–	–	–	(257,263)	–	(257,263)
Net loss for the year	–	–	–	–	–	(1,239,935)	(1,239,935)
Balance, December 31, 2010 *note 18*	156,611,458	$ 46,183,099	$ 2,844,369	$ 1,242,686	$ 37,500	$ (25,342,823)	$ 24,964,831
Common shares issued for exploration and evaluation property *notes 7 and 10(b)*	750,000	172,500	–	–	–	–	172,500
Common shares issued for cash *note 10(b)*	20,619,658	19,137,820	–	–	–	–	19,137,820
Common shares issued on exercise of stock options *note 10(c)*	1,134,332	343,732	(138,627)	–	–	–	205,105
Common shares issued on exercise of warrants *note 10(e)*	5,600,000	1,179,305	–	(70,105)	–	–	1,109,200
Common shares issued on exercise of compensation options *note 10(e)*	807,350	122,449	–	(25,567)	–	–	96,882
Flow-through share liability *notes 8 and 10(b)*	–	(3,185,897)	–	–	–	–	(3,185,897)
Share-based payments *note 10(d)*	–	–	839,776	–	–	–	839,776
Share issue costs *notes 10(b) and 10(e)*	–	(1,853,897)	–	461,664	–	–	(1,392,233)
Reclassification of gain on available-for-sale investments *note 4*	–	–	–	–	(37,500)	–	(37,500)
Net loss for the year	–	–	–	–	–	(3,712,189)	(3,712,189)
Balance, December 31, 2011	**185,522,798**	**$ 62,099,111**	**$ 3,545,518**	**$ 1,608,678**	**$ –**	**$(29,055,012)**	**$ 38,198,295**

See accompanying notes to financial statements

(Expressed in Canadian dollars)

Years ended December 31,	**2011**	2010
		note 18
Operating Activities		
Net loss for the year	**$ (3,712,189)**	$ (1,239,935)
Items not involving cash		
Flow-through share income	**(1,885,736)**	–
Depreciation	**8,283**	1,950
Gain on sale of available-for-sale investments	**(37,500)**	(257,263)
Share-based payments *note 10(d)*	**480,012**	243,378
Write-off of exploration and evaluation properties	**3,218,644**	–
Change in non-cash operating working capital items:		
Increase in prepaids and receivables	**(349,423)**	(72,752)
Increase in trade payables and accrued liabilities	**103,920**	38,141
Cash used in operating activities	**(2,173,989)**	(1,286,481)
Investing Activities		
Exploration and evaluation property expenditures	**(8,238,557)**	(4,631,418)
Recovery of exploration and evaluation property expenditures	**296,317**	223,821
Proceeds from sale of investment	**45,000**	351,013
Proceeds from sale of exploration and evaluation property interests	**1,300,000**	300,000
Cash provided by (used in) investing activities	**(6,597,240)**	(3,756,584)
Financing Activities		
Proceeds from exercise of stock options	**205,105**	58,315
Proceeds from exercise of compensation options	**96,882**	226,400
Proceeds from exercise of warrants	**1,109,200**	5,799,813
Proceeds from private placements, net of share issue costs	**17,745,587**	600,450
Cash provided by financing activities	**19,156,774**	6,684,978
Increase in cash during the year	**10,385,545**	1,641,913
Cash, beginning of year	**6,708,529**	5,066,616
Cash, end of year	**$ 17,094,074**	$ 6,708,529

Supplemental cash flow information note 12

See accompanying notes to financial statements

1. NATURE OF OPERATIONS

Northern Superior Resources Inc. ("Northern Superior" or the "Company") is an exploration stage junior mining company engaged in the identification, acquisition, evaluation and exploration of gold properties in Canada. The Company has not determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and attaining future profitable production from the properties or proceeds from disposition.

The Company is dependent on raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake further exploration and development of its mineral properties. Management believes that financing is available and may be sourced in time to allow the Company to continue its current planned activities in the normal course.

The head office, principal address and registered records office of the Company is 1988 Kingsway, Unit G, Sudbury, Ontario, Canada, P3B 4J8.

2. BASIS OF PREPARATION

a) Statement of Compliance

These audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of these financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("Canadian GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They also have been applied in preparing an opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The impact of the transition from Canadian GAAP to IFRS is explained in Note 18.

The policies applied in these financial statements are based on IFRS issued and outstanding as of March 8, 2012.

b) Approval of Financial Statements

The financial statements of Northern Superior Resources Inc. for the year ended December 31, 2011 were reviewed by the audit committee and approved and authorized for issue by the Board of Directors on March 8, 2012.

c) Adoption of New and Revised Standards and Interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial years beginning on or after January 1, 2011. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all of these new standards for the relevant reporting periods.

At the date of authorization of these financial statements, the IASB and IFRS Interpretations Committee ("IFRIC") have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- 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.
- IFRS 10, *Consolidated Financial Statements* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- IFRS 11, *Joint Arrangements* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12, *Disclosure of Interests in Other Entities* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13, *Fair Value Measurement* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

The Company has not early adopted these standards, amendments and interpretations; however, the Company is currently assessing the impact of these standards or amendments on the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and Cash Equivalents

The Company considers deposits that are highly liquid, readily convertible to known amounts of cash, redeemable on demand and have original maturities of less than three months from the date of purchase to be cash equivalents. Interest income is recorded as earned on the accrual basis at the stated rate of interest over the term of the investment.

b) Financial Assets

Financial assets are classified as loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss ("FVTPL"), or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables comprise Québec Government refundable tax credits, sales tax receivable and other receivables.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognized or impaired. Available-for-sale assets include investment in equities of other entities.

The fair value is determined by reference to bid prices at the close of business on the reporting date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost.

Financial assets at FVTPL

Financial assets are classified as held for trading and are included in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives, other than those designated as effective hedging instruments, are also categorized as held for trading. These assets are carried at fair value with gains or losses recognized in profit or loss. Cash and cash equivalents are included in this category of financial assets.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

c) Impairment of Financial Assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at each period end.

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost have 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 discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in profit or loss.

Available-for-sale

If an available-for-sale financial asset is impaired, the cumulative loss previously recognized in equity is transferred to profit or loss. Any subsequent recovery in the fair value of the asset is recognized within other comprehensive income.

d) Financial Liabilities

Financial liabilities are classified as financial liabilities at FVTPL, derivatives designated as hedging instruments in an effective hedge, or as financial liabilities measured at amortized cost, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at FVTPL

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated by management on initial recognition. These liabilities are carried at fair value with gains or losses recognized in profit or loss.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest, other revenues and finance costs. Trade payables are included in this category of financial liabilities.

e) Share-based Payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of the options, as determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions, are expensed or capitalized to exploration and evaluation properties as appropriate. The corresponding amount is recorded to the stock options reserve. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest.

f) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the assets to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Equipment is depreciated, using the straight-line method over their estimated useful lives. The significant classes of equipment and their estimated useful lives are as follows:

Office and other equipment	5 years
Computer equipment	3 years

Where an item of plant and equipment consists of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

g) Exploration and Evaluation Expenditures

Exploration and evaluation properties and related costs are recorded at cost on a property-by-property basis. The Company considers its exploration and evaluation costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration and evaluation costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production, at which time, they will be amortized on a unit-of-production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made. Costs incurred for general exploration, including expenditures of a general reconnaissance nature, that are not project specific or do not result in the acquisition of exploration and evaluation properties are charged to operations.

All capitalized exploration and evaluation costs are reviewed for indications of impairment regularly to determine whether a write down of their carrying amount is required. Factors such as metal prices (gold and diamond prices), the ability of the Company to finance the projects, and exploration results to date are considered in determining whether indicators of impairment exists.

h) Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. Recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

i) Income Taxes

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

Tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

j) Asset Retirement Obligations

Asset retirement obligations consist of legal obligations associated with the retirement of tangible, long-lived assets that result from the acquisition, construction, development or operation of the assets. The retirement of a long-lived asset is its permanent removal from service, sale, abandonment or disposal.

Asset retirement obligations are recognized as they are incurred and recorded as liabilities at fair value.

The liability is accreted over time through periodic charges to income. Actual expenditures incurred are charged against the accumulated obligation. The asset retirement cost is capitalized as part of the related asset's carrying value and depreciated over the asset's useful life.

Management has determined that it has no asset retirement obligations at this time.

k) Flow-through Shares

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

(Expressed in Canadian dollars)

l) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) attributable to common shareholders by the weighted-average number of common shares outstanding during the reporting period.

Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that (i) net earnings (loss) attributable to common shareholders are adjusted for fair value gains or losses of warrants (if dilutive) and (ii) the weighted-average number of common shares outstanding is adjusted for the number of shares that are potentially issuable in connection with stock options and warrants (if dilutive) using the treasury stock method. Under this method, the Company assumes that outstanding dilutive stock options and warrants were exercised and that the proceeds from such exercises (after adjustment of any unvested portion of stock options) were used to acquire common stock at the average market price during the reporting periods.

m) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates where management's judgment is applied include asset valuation, asset retirement obligations, income taxes, contingent liabilities, stock based compensation and ability to continue as a going concern. Actual results may differ from those estimates.

4. AVAILABLE-FOR-SALE INVESTMENTS

As at	**December 31, 2011**		December 31, 2010		January 1, 2010	
	Cost	**Fair Value**	Cost	Fair Value	Cost	Fair Value
Forum Uranium Corp. ("Forum") Nil common shares (December 31, 2010 – 150,000 common shares, January 1, 2010 – 2,025,000 common shares)	**$ –**	**$ –**	$ 7,500	$ 45,000	$ 101,250	$ 293,625

During the year ended December 31, 2011, the Company sold its remaining 150,000 common shares of Forum (2010 – 1,875,000) for net cash proceeds of $45,000 (2010 – $351,013) resulting in a gain of $37,500 (2010 – $257,263) for accounting purposes and a reclassification in the available-for-sale investments reserve.

During the year ended December 31, 2011, the Company recorded unrealized income for accounting purposes of $Nil (2010 – $102,388) resulting in an increase to the available-for-sale investments reserve of $Nil (2010 – $102,388).

The sale of Forum shares in 2011 reduced the Company's available-for-sale investments reserve to $Nil (2010 – $37,500).

5. PREPAIDS AND RECEIVABLES

Prepaids and receivables consist of the following:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Government refundable tax credits	**$ 48,456**	$ 49,199	$ 160,203
Due from joint venture partners	**184,306**	83,103	87,307
Sales tax receivable – net	**348,936**	80,514	29,201
Prepaid expenses	**22,722**	88,635	22,543
Interest receivable	**171,973**	8,600	–
Other receivables	**–**	16,459	69,712
Total	**$ 776,393**	$ 326,510	$ 368,966
Receivables (non-current portion):			
Québec Government refundable tax credits	**$ –**	$ 8,113	$ 21,598

(Expressed in Canadian dollars)

6. EQUIPMENT

A summary of the changes in the Company's equipment for the year ended December 31, 2011 is as follows:

	Office and other equipment	Computer equipment	Total
Cost			
At December 31, 2010	$ 37,418	$ 29,344	$ 66,762
Additions	–	–	–
Disposals	–	–	–
At December 31, 2011	**$ 37,418**	**$ 29,344**	**$ 66,762**
Depreciation			
At December 31, 2010	$ 25,482	$ 27,029	$ 52,511
Change for the year	5,968	2,315	8,283
At December 31, 2011	**$ 31,450**	**$ 29,344**	**$ 60,794**
Net book value			
At December 31, 2010	$ 11,936	$ 2,315	$ 14,251
At December 31, 2011	**$ 5,968**	**$ –**	**$ 5,968**

A summary of the changes in the Company's equipment for the year ended December 31, 2010 is as follows:

	Office and other equipment	Computer equipment	Total
Cost			
At January 1, 2010	$ 37,418	$ 29,344	$ 66,762
Additions	–	–	–
Disposals	–	–	–
At December 31, 2010	$ 37,418	$ 29,344	$ 66,762
Depreciation			
At January 1, 2010	$ 17,998	$ 17,248	$ 35,246
Change for the year	7,484	9,781	17,265
At December 31, 2010	$ 25,482	$ 27,029	$ 52,511
Net book value			
At January 1, 2010	$ 19,420	$ 12,096	$ 31,516
At December 31, 2010	$ 11,936	$ 2,315	$ 14,251

(Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION PROPERTIES

For year ended December 31, 2011	Ti-pa-haa-kaa-ning	New Growth	Meston Lake	Rapson Bay	Croteau Est	Wachigabau	Other[1]	Total
Balance, beginning of year	$ 12,719,498	$ –	$ 52,151	$ 140,539	$ –	$ 1,740,511	$ 3,387,729	$ 18,040,428
Acquisition, assessment and maintenance[2]	4,993	21,212	230,146	257,245	46,984	14,699	731,628	1,306,907
Analytical	–	35,110	58,089	42,346	55,028	11,323	97,029	298,925
Geophysics	–	174,577	355,454	404,512	184,236	31,095	277,618	1,427,492
Geology	3,435	607,747	862,682	681,780	336,008	97,318	330,939	2,919,909
Drilling	1,083	2,568	5,198	1,585,696	308,658	247,373	554,187	2,704,763
Research	13,184	139,642	20,909	25,335	–	10,278	2,800	212,148
Project administration	58,467	77,414	38,709	52,644	46,274	40,452	91,981	405,941
Sale of exploration and evaluation property interests[3]	(1,300,000)	–	–	–	–	–	–	(1,300,000)
Cost recoveries[4]	–	–	–	–	–	(247,222)	(142,180)	(389,402)
Write-off of exploration and evaluation properties	–	–	–	–	–	(956,958)	(2,261,686)	(3,218,644)
Tax credit adjustments	–	–	–	–	–	9,520	(2,364)	7,156
Balance, end of year	**$11,500,660**	**$ 1,058,270**	**$ 1,623,338**	**$ 3,190,097**	**$ 977,188**	**$ 998,389**	**$ 3,067,681**	**$22,415,623**

(1) Includes Lac Surprise ($1,150,134), Thorne Lake ($1,041,718) and Other ($875,829) as at December 31, 2011.

(2) Includes Thorne Lake non-cash acquisition costs of $172,500 (deemed value of shares issued).

(3) The Company received $1,300,000 cash for the sale of mineral property interests to Rainy River Resources Ltd.

(4) The Company recorded cost recoveries of $247,222, $12,999 and $129,181 from Matamec Explorations Inc., INV Metals Inc., and Paget Minerals Corp., respectively.

For year ended December 31, 2010	Ti-pa-haa-kaa-ning	New Growth	Meston Lake	Rapson Bay	Croteau Est	Wachigabau	Other[1]	Total
Balance, beginning of year	$ 5,434,190	$ –	$ 21,419	$ 52,010	$ –	$ 1,358,984	$ 2,757,840	$ 9,624,443
Acquisition, assessment and maintenance[2]	4,120,927	–	–	–	–	9,973	54,227	4,185,127
Amortization	13,994	–	–	–	–	719	602	15,315
Analytical	114,902	–	232	824	–	19,815	104,872	240,645
Geophysics	22,246	–	–	–	–	101,169	230,508	353,923
Geology	73,587	–	22,399	73,141	–	49,780	242,710	461,617
Drilling	2,246,583	–	–	–	–	165,246	–	2,411,829
Research	148,012	–	222	797	–	–	14,992	164,023
Project administration	76,227	–	7,879	13,767	–	15,021	24,965	137,859
Site access and camp	836,768	–	–	–	–	–	–	836,768
Sale of exploration and evaluation property interests[3]	(300,000)	–	–	–	–	–	–	(300,000)
Cost recoveries[4]	(67,938)	–	–	–	–	–	(21,796)	(89,734)
Tax credit adjustments	–	–	–	–	–	19,804	(21,191)	(1,387)
Balance, end of year	$ 12,719,498	$ –	$ 52,151	$ 140,539	$ –	$ 1,740,511	$ 3,387,729	$ 18,040,428

(1) Includes Lac Surprise ($320,055), Thorne Lake ($363,516), Ville Marie ($2,066,930) and Other ($637,228) as at December 31, 2010.

(2) Includes Ti-pa-haa-kaa-ning non-cash acquisition costs of $3,250,000 (deemed value of shares issued) and $803,000 (fair value of warrants issued).

(3) The Company received $300,000 cash for the sale of exploration and evaluation property interests to Rainy River Resources Ltd.

(4) The Company recorded cost recoveries of $67,938 and $21,796 from Rainy River Resources Ltd. and INV Metals Inc., respectively.

Ti-pa-haa-kaa-ning ("TPK") property

TPK Option / Joint Venture Agreement with Rainy River Resources Ltd. ("Rainy River")

On June 18, 2010, the Company entered into an agreement whereby Rainy River was granted an option to earn a 51% joint venture interest in the eastern half of the TPK project. Rainy River can earn its 51% interest in the eastern half of the TPK Property by (a) funding $9,400,000 in exploration expenses over a 3 year period, with $1,400,000 in year 1 ending April 30, 2011, $4,000,000 in year 2 ending April 30, 2012, and $4,000,000 in year 3 ending April 30, 2013; (b) making cash payments of $300,000 upon receipt of regulatory acceptance (paid) and a further $1,300,000 in January 2011 (paid); and (c) completing three equal annual private placements of common shares of the Company of $500,000 each for a total equity investment of $1,500,000. The first placement of $500,000, at $0.20 per share, was completed on September 9, 2010 (note 10(b)). The second placement of $500,000, at $0.36 per share, was completed on July 8, 2011 (note 10(b)). Under the terms of the agreement, the Company was required to spend an additional $1,600,000 in exploration expenditures on the eastern half of the TPK project in 2010, which was surpassed before December 31, 2010.

Under the terms of the agreement, Rainy River has the right to accelerate expenditures to exercise its option early. Rainy River has the right to terminate the option at any time after completing its year 1 obligations. If Rainy River exercises its option, the parties have agreed to form a joint venture, with Rainy River holding a 51% interest and the Company 49%. Rainy River is the manager of the exploration program for the term of the agreement.

The Company also granted to Rainy River rights of first refusal with respect to both the Company's interest in the eastern half of the TPK property and its 100% interest in the western half of the TPK Property (known as the "New Growth" area) should the Company receive acceptable bona fide arms' length third party offers.

Acquisition of Lake Shore Gold Corp.'s 50% Ownership of TPK

On May 27, 2010, the Company completed an agreement with Lake Shore Gold Corp. ("Lake Shore") to acquire Lake Shore's 50% interest in the TPK property in exchange for 25,000,000 shares and 12,500,000 warrants of the Company (note 10(b)). The terms of the warrants were: each warrant entitles the holder to purchase one share of the Company at a price of $0.30 per share for 5 years, with the provision that if the Company's share price maintains a value of over $0.35 during any 20 consecutive trading day period, the Company would have the right to require Lake Shore to exercise any unexercised warrants within 30 days or forfeit them. In addition, the Company agreed to grant Lake Shore an assignable (subject to a right of first refusal in favour of the Company) 2% Net Smelter Royalty ("NSR") on all minerals produced from TPK, with the Company having the right to purchase back one quarter of the NSR (0.5%) for $1,000,000.

The agreement also provided that: (i) the Company will be responsible for all expenditures on TPK from January 1, 2010 onward; (ii) for a period of five years and so long as Lake Shore maintains at least a 10% ownership interest, it will be offered the right to participate in any future equity financings pro rata in order to maintain its ownership interest (Lake Shore exercised this right and participated in a private placement financing on September 9, 2010 with a $125,000 investment (note 10(b)); and (iii) for so long as Lake Shore maintains at least a 19.9% ownership interest it will be entitled to nominate at least two directors to serve on the Company's board, and should its holdings drop below 19.9% but remain above 10% it shall be entitled to nominate one director.

The deemed cost of the 25,000,000 shares issued was $3,250,000, which was added to the acquisition costs of the TPK project (note 10(b)). The fair value of the 12,500,000 warrants issued was $803,000, which was also added to the acquisition costs of the TPK project (note 10(f)).

In October 2010, Lake Shore exercised its 12,500,000 warrants after receiving notice that the Company had met the 20 consecutive days over $0.35 trading price, and the Company issued 12,500,000 common shares for cash proceeds of $3,750,000.

New Growth property

The New Growth property is 100% owned by the Company. The New Growth property area originally represented two-thirds of the TPK property, however this area was excluded from the agreement with Rainy River and is now being explored and accounted for separately by the Company.

Meston Lake property

The Meston Lake property is 100% owned by the Company, and consists of 84 claims covering 19,688 hectares in northwestern Ontario. The Company incurred expenditures of $1,571,187 on the property during the year ended December 31, 2011 (2010 – $30,732).

Rapson Bay property

The Rapson Bay property is 100% owned by the Company, and consists of 111 claims covering 26,135 hectares in northwestern Ontario. The Company incurred expenditures of $3,049,558 on the property during the year ended December 31, 2011 (2010 – $88,529).

(Expressed in Canadian dollars)

Croteau Est property

On August 24, 2011, the Company entered into an option agreement with the owners (the "Optionors") of the Croteau Est gold property in Québec who granted the Company an option to acquire 100% of the property. To exercise the option the Company is required to spend $1.7 million on exploration on the property over four years: $200,000 in year 1 (incurred), $300,000 in year 2, $400,000 in year 3 and $800,000 in year 4. The Company must also make cash payments to the Optionors totaling $350,000: $35,000 upon signing the letter of intent (paid), $35,000 by the end of year 1, $40,000 by the end of year 2, $80,000 by the end of year 3 and $160,000 by the end of year 4. In addition, the Company must issue to the Optionors, $280,000 worth of common shares of the Company: $40,000 at the end of year 2, $80,000 by the end of year 3 and $160,000 by the end of year 4. The number of common shares issuable shall be based on the market price of the Company's shares at the time of issuance. Upon exercise of the option, the Optionors shall retain a 1.0% NSR on any commercial production with the Company having the right to buy back 0.5% of the NSR for $1.5 million, at any time.

Wachigabau property

In 2009, the Company and Matamec Explorations Inc. ("Matamec") signed an option and joint venture agreement (the "Option Agreement"), whereby the Company could earn 50% of all metals and minerals rights (other than diamond rights which the Company earned in before the signing of the Option Agreement) by paying $25,000 (paid), issuing 100,000 shares of the Company (issued) and 100,000 purchase warrants (issued and exercised) and spending $500,000 over a period of three years for exploration of all metals and minerals (except for kimberlites and diamonds). In 2010 the Company fulfilled all earn-in requirements and a 50/50 joint venture was formed between Matamec and the Company. As per the terms of the Options Agreement, the Company and Matamec have a 50/50 interest on all metal and mineral rights, including diamonds on the Wachigabau property.

During the year ended December 31, 2011, the Company recorded a provision for write-down of $956,958 (2010 – $Nil) related to Wachigabau property.

Other properties

Thorne Lake property – In November 2011, the Company completed an agreement to reacquire a 50% interest in the Thorne Lake property that it had previously optioned to INV Metals Inc. ("INV"). In 2009, the Company had entered into an option and joint venture agreement with INV under which INV could earn a 50% interest in the Thorne Lake property by funding $1.5 million in exploration expenditures over 4 years. Upon INV completing its funding obligations, a joint venture would be formed with INV and the Company both holding a 50% interest in the property. Prior to the reacquisition, INV had contributed a total of $1,166,997 in cash towards its earn-in on the project. The Company reacquired a 100% interest in the property by making a cash payment of $500,000 to INV and issuing 750,000 shares of the Company to INV at a deemed price of $0.23 per share ($172,500 total deemed price of shares) (note 10(b)).

Ville Marie property – During the year ended December 31, 2011, the Company recorded a provision for write-down of $2,110,626 (2010 – $Nil) related to Ville Marie property.

Ellard Lake property – During the year ended December 31, 2011, the Company recorded a provision for write-down of $151,060 (2010 – $Nil) related to Ellard Lake property.

8. TRADE PAYABLES, ACCRUED LIABILITIES AND FLOW-THROUGH SHARE LIABILITY

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Trade payables	**$ 621,860**	$ 23,718	$ 12,400
Amounts due to related parties	**4,807**	23,609	8,000
Accrued liabilities	**166,935**	130,673	116,002
	$ 793,602	$ 178,000	$ 136,402

Flow-Through Share Liability

On January 27, 2011, the Company completed a $8,637,820 brokered flow-through private placement consisting of 2,617,521 common shares at a price of $1.10 per share and 4,113,248 common shares at a price of $1.40 per share. This issuance of flow-through shares resulted in a flow-through share liability of $3,185,897 at the date of issue with $1,300,161 remaining at December 31, 2011 (note 10(b)).

During the year ended December 31, 2011, the Company incurred approximately $5,112,736 in qualifying Canadian exploration expenditures resulting in a flow-through share income, with a corresponding decrease in the flow-through share liability of $1,885,736, on the basis that the Company has the intention of renouncing these qualifying Canadian exploration expenditures to the respective investors.

(Expressed in Canadian dollars)

9. INCOME TAXES

The provision for income taxes in the statement of loss and deficit represents an effective rate different than would be computed by applying the combined Canadian statutory federal and provincial income tax rates to the loss before income taxes due to the following:

For the years ended December 31,	**2011**	2010
Loss before income taxes	**$ (3,712,189)**	$ (1,239,935)
Canadian statutory income tax rates	**28.25%**	31.00%
Recovery of income taxes at Canadian statutory rates	**1,048,693**	384,380
Permanent differences	**1,064,589**	(354,038)
Changes in tax rates	**(77,107)**	252,311
Flow-through shares renunciation	**(1,444,348)**	(1,293,730)
Change in valuation allowance	**(591,827)**	1,011,077
Deferred tax recovery	**$ –**	$ –

The tax effect of temporary differences that gives rise to the Company's net future income tax assets is as follows:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Deferred tax assets (liabilities)			
Operating losses carried forward	**$ 2,218,807**	$ 1,605,629	$ 1,449,458
Capital loss carried forward	**1,188,732**	1,186,857	1,136,984
Resource properties	**(995,062)**	(431,598)	642,542
Share issue costs	**319,783**	104,631	186,592
Other	**354,764**	29,678	90,698
	$ 3,087,024	$ 2,495,197	$ 3,506,274
Less: Valuation allowance	**(3,087,024)**	(2,495,197)	(3,506,274)
Total deferred tax assets	**$ –**	$ –	$ –

At December 31, 2011, the Company had capital losses for tax purposes in Canada totaling $9,509,856 that may be carried forward indefinitely, and operating loss carry forwards of $8,875,227 available for tax purposes in Canada which expire as follows:

Tax Operating Losses	**Year of Expiry**
$ 379,827	2014
314,918	2015
479,151	2026
872,751	2027
1,263,477	2028
1,518,538	2029
1,593,853	2030
2,452,712	2031
$ 8,875,227	

(Expressed in Canadian dollars)

10. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

b) Issued Capital

During the years ended December 31, 2011 and 2010, changes in issued share capital were as follows:

On May 27, 2010, the Company issued 25,000,000 shares at $0.13 per share for total value of $3,250,000 related to the acquisition of Lake Shore's 50% interest in the TPK property (note 7).

On September 9, 2010, the Company closed a private placement with Rainy River for 2,500,000 shares of the Company at a price of $0.20 per share for proceeds of $500,000. At the same time, pursuant to a right granted to Lake Shore in May 2010 in connection with the Company's acquisition of the entire TPK gold property, the Company closed a private placement with Lake Shore for 625,000 shares of the Company at a price of $0.20 per share for proceeds of $125,000 (note 7).

On January 12, 2011, the Company completed a $10,000,000 brokered private placement consisting of 12,500,000 common shares at a price of $0.80 per share.

On January 27, 2011, the Company completed a $8,637,820 brokered flow-through private placement consisting of 2,617,521 common shares at a price of $1.10 per share and 4,113,248 common shares at a price of $1.40 per share. This issuance of flow-through shares resulted in a flow-through share liability of $3,185,897 at the date of issue (note 8).

The Company recorded share issue costs of $1,853,897 in connection with the above two private placements, of which $1,392,233 was paid in cash and $461,664 was the fair value of brokers' compensation options. A total of 1,153,847 compensation options were issued, each compensation option is exercisable into one common share for a period of one year at an exercise price of $0.80 from the date of closing (note 10(e)).

On July 8, 2011, the Company closed a private placement with Rainy River for 1,388,889 shares of the Company at a price of $0.36 per share for proceeds of $500,000 (note 7).

On November 16, 2011, the Company completed an agreement to acquire INV's 50% interest in the Thorne Lake property, which included the issuance of 750,000 shares of the Company to INV at a deemed price of $0.23 per share for a total value of $172,500 (note 7).

During the year, the Company issued 5,600,000 shares in connection with the exercise of 5,600,000 warrants, for proceeds of $1,109,200.

During the year, the Company issued 1,134,332 shares in connection with the exercise of 1,134,332 stock options, for proceeds of $205,105.

During the year, the Company issued 807,350 shares in connection with the exercise of 807,350 compensation options, for proceeds of $96,882.

c) Stock Options

As at December 31, 2011, the Company had 9,824,568 stock options outstanding of which 3,986,228 were exercisable under the Company's stock option plan. The terms of all options cannot exceed ten years and the minimum exercise price cannot be less than the closing price of the Company's common shares on the TSX Venture Exchange on the last trading day preceding the grant of the option. The Board of Directors determines the vesting terms of the options, with a typical vesting schedule of 1/3 of the options under the grant vesting on each anniversary over a three year period after the date of grant.

A summary of the changes in the Company's stock option plan for the years ended December 31, 2011 and 2010 is as follows:

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Number of options	**Weighted-average exercise price**	Number of options	Weighted-average exercise price
Outstanding, beginning of year	**7,753,900**	**$ 0.33**	6,580,000	$ 0.22
Granted	**3,595,000**	**$ 0.26**	2,450,000	$ 0.55
Expired	**(50,000)**	**$ 0.50**	(110,000)	$ 0.45
Exercised	**(1,134,332)**	**$ 0.18**	(551,100)	$ 0.11
Forfeited	**(340,000)**	**$ 0.43**	(615,000)	$ 0.20
Outstanding, end of year	**9,824,568**	**$ 0.32**	7,753,900	$ 0.33
Exercisable, end of year	**3,986,228**	**$ 0.32**	4,023,900	$ 0.27

(Expressed in Canadian dollars)

A weighted-average grant-date fair value of $0.26 (2010 – $0.55) for options granted during the year ended December 31, 2011 was determined using the Black-Scholes Option Pricing Model using the following assumptions: no dividends are to be paid; volatility of 152.9% (2010 – 152.6%); risk-free interest rate of 1.5% (2010 – $2.1%); and expected life of 5 years.

The following table summarizes information regarding stock options outstanding and exercisable at December 31, 2011:

Exercise Price Range	Number of Options Outstanding	Remaining Contractual Life (in years)		Weighted-Average Exercise Price	Number of Options Exercisable	Remaining Vested Contractual Life (in years)		Weighted-Average Vested Exercise Price
$0.01 – $0.19	2,454,568	2.74	$	0.12	1,777,899	2.66	$	0.12
$0.20 – $0.39	4,035,000	4.29	$	0.27	540,000	0.85	$	0.36
$0.40 – $0.59	2,900,000	3.23	$	0.52	1,333,329	2.50	$	0.49
$0.60 – $0.79	435,000	1.16	$	0.65	335,000	0.21	$	0.63
	9,824,568	3.45	$	0.32	3,986,228	2.15	$	0.32

d) Share-Based Payments

Share-based payments recognized in the year are allocated to exploration and evaluation properties, consulting fees and office expense.

The following table summarizes the stock-based compensation expense for stock option grants that the Company recorded for the years ended December 31, 2011 and 2010:

For the years ended December 31,		**2011**		2010
Exploration and evaluation properties	**$**	**359,764**	$	107,923
Consulting fees		**266,984**		99,146
Office expense		**213,028**		144,232
Total share-based payments	**$**	**839,776**	$	351,301

Share-based payments of $359,764 (2010 – $107,923) related to exploration and evaluation properties are capitalized to exploration and evaluation properties and share-based payments of $480,012 (2010 – $243,378) related to consulting fees and office expense are expensed for the year ended December 31, 2011.

e) Warrants and Compensation Options

A summary of the changes in the Company's warrants for the years ended December 31, 2011 and 2010 is as follows:

Year ended	**December 31, 2011**			December 31, 2010		
	Number of warrants		**Weighted-average exercise price**	Number of warrants		Weighted-average exercise price
Outstanding, beginning of year	**6,079,247**	**$**	**0.20**	18,390,582	$	0.16
Granted	**–**		**–**	13,000,000	$	0.30
Exercised	**(5,600,000)**	**$**	**0.20**	(25,311,335)	$	0.23
Expired	**(479,247)**	**$**	**0.20**	–	$	0.00
Outstanding, end of year	**–**		**–**	6,079,247	$	0.20

(Expressed in Canadian dollars)

A summary of the changes in the Company's compensation options for the years ended December 31, 2011 and 2010 is as follows:

Years ended	**December 31, 2011**			December 31, 2010		
	Number of options		**Weighted-average exercise price**	Number of options		Weighted-average exercise price
Outstanding, beginning of year	**807,350**	**$**	**0.12**	2,860,682	$	0.12
Granted	**1,153,847**	**$**	**0.80**	–	$	0.00
Exercised	**(807,350)**	**$**	**0.12**	(2,053,332)	$	0.11
Outstanding, end of year	**1,153,847**	**$**	**0.80**	807,350	$	0.12

As at December 31, 2011 the following compensation options were outstanding and exercisable:

Date issued	**Number of Options**	**Exercise price**		**Expiry date**
January 12, 2011	750,000	$	0.80	January 12, 2012
January 27, 2011	403,847	$	0.80	January 27, 2012
	1,153,847			

The Company issued 750,000 compensation options on January 12, 2011 and 403,847 compensation warrants on January 27, 2011 in connection with two separate brokered private placements. The compensation options were valued at $461,664 using the Black-Scholes Option Pricing Model on the date of issue. The grant-date fair value for the compensation options was estimated using the following weighted-average assumptions: no dividends are to be paid; volatility of 119.9%; risk-free interest rate of 1.4%; and expected life of 1 year.

f) Reserves

A summary of the changes in the stock options reserve for the years ended December 31, 2011 and 2010 is as follows:

For the years ended December 31,		**2011**		2010
Balance, beginning of year	**$**	**2,844,369**	$	2,531,789
Stock-based payments		**839,776**		351,301
Stock options exercised		**(138,627)**		(38,721)
Balance, end of year	**$**	**3,545,518**	$	2,844,369

A summary of the changes in the warrants reserve for the years ended December 31, 2011 and 2010 is as follows:

For the years ended December 31,		**2011**		2010
Balance, beginning of year	**$**	**1,242,686**	$	1,504,321
Warrants granted in exchange for exploration and evaluation properties note 7		**–**		803,000
Fair value of warrants and compensation options issued		**461,664**		–
Warrants exercised		**(70,105)**		(1,004,425)
Compensation options exercised		**(25,567)**		(60,210)
Balance, end of year	**$**	**1,608,678**	$	1,242,686

(Expressed in Canadian dollars)

11. RELATED PARTY TRANSACTIONS

For the years ended December 31,	**2011**	2010
Management and other fees	**$ 112,451**	$ 99,050
Salaries and wages	**973,312**	394,232
Share-based payments	**598,647**	192,603
	$ 1,684,410	$ 685,885

All related party transactions are in the normal course of operations and measured at the exchange amount agreed to between the related parties. For the purposes of disclosure, related parties are defined as the officers and directors of the Company.

12. SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended December 31,	**2011**	2010
Non-cash investing and financing activities		
Common shares issued pursuant to property agreements	**$ 172,500**	$ 3,250,000
Transfer of amounts from reserves	**234,299**	1,103,356
Warrants and compensation options issued pursuant to private placements	**461,664**	–
Warrants issued pursuant to property agreement	**–**	803,000
Changes in working capital related to resource properties	**419,335**	132,150
Depreciation capitalized	**–**	15,315
Tax liability related to premium received on flow-through shares	**3,185,897**	–
Interest received	**84,758**	23,549
Interest paid	**–**	29,632
Taxes paid	**7,398**	–

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Financial Instruments

The carrying value of financial assets and liabilities at December 31, 2011 and 2010 and January 1, 2010 are as follows:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Financial Assets			
Fair value through profit or loss, measured at fair value			
Cash and cash equivalents	**$ 17,094,074**	$ 6,708,529	$ 5,066,616
Loans and receivables, measured at amortized cost			
Receivables	**356,279**	108,162	157,019
Available-for-sale, measured at fair value			
Available-for-sale investments	**–**	45,000	293,625
Financial Liabilities			
Other liabilities, measured at amortized cost			
Trade payables and due to related parties	**$ 626,667**	$ 47,327	$ 20,400

(Expressed in Canadian dollars)

The fair value hierarchy of financial instruments measured at fair value on the statement of financial position is as follows:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
	Level 1	Level 1	Level 1
Cash and cash equivalents	**$ 17,094,074**	$ 6,708,529	$ 5,066,616
Available-for-sale investments	**–**	45,000	293,625

b) Management of Financial Risks

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

i. Credit Risk

The Company's credit risk is primarily attributable to cash and receivables. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote. The Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

ii. Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2011, the Company had cash and cash equivalents of $17,094,074 (December 31, 2010 – $6,708,529, January 1, 2010 – $5,066,616) to settle accounts payables totaling $793,602 (December 31, 2010 – $178,000, January 1, 2010 – $136,402). All of the Company's financial liabilities have contractual maturities of 30 days and are subject to normal trade terms.

iii. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short term interest rates through the interest earned on cash balances. A 1% change in short term rates would change the interest income and net loss of the Company, assuming that all other variables remained constant, by approximately $170,941 for the year ended December 31, 2011.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant currency or commodity risk arising from financial instruments.

14. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it to effectively support the acquisition, exploration and development of mineral properties. In the definition of capital, the Company includes, as disclosed on its statement of financial position: share capital, deficit, equity reserves and cash and cash equivalents.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will be using its existing working capital and raise additional amounts as needed. 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 year ended December 31, 2011. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products.

(Expressed in Canadian dollars)

15. COMMITMENTS

	Less than 1 year	1 – 5 years	5 or more years	Total
Operating lease – office lease	$ 40,600	$ –	$ –	**$ 40,600**

The Company is committed to incur, on a best efforts basis, approximately $3,525,084 in qualifying Canadian exploration expenditures by December 31, 2012 pursuant to a flow-through private placement, of which approximately $5,112,736 has been incurred as at December 31, 2011.

16. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment being the mining business in Canada. All resource properties and equipment are situated in Canada.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in accordance with the current year's presentation.

18. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, sets forth guidance for the initial adoption of IFRS. The accounting policies in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010 and the preparation of an opening IFRS statement of financial position on January 1, 2010 (the "Transition Date").

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

a) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the Transition Date. The Company elected not to apply IFRS 2 to equity instruments that vested prior to the Transition Date.

In addition, under Canadian GAAP, the Company expensed the share-based payments in the statements of operations. On transition to IFRS, the Company is adopting an accounting policy to capitalize certain of the share-based payments related to stock options granted to employees and non-employees for work performed on the Company's exploration and evaluation properties as a component of those properties.

Adoption of IFRS 2 and the change in accounting policy related to share-based payments resulted in an increase in exploration and evaluation properties, increase in stock options reserve and a net decrease in deficit as at the Transition Date of $23,625, $19,029 and $4,596, respectively, and a further increase in exploration and evaluation properties, a further increase in stock options reserve and a decrease in share-based payment expense of $107,923, $73,783 and $34,140, respectively, for the year ended December 31, 2010.

b) Flow-through shares

Flow-through shares are a unique Canadian tax incentive which is the subject of specific guidance under Canadian GAAP. Under Canadian GAAP, the Company accounted for the issue of flow-through shares in accordance with the provisions of CICA Emerging Issues Committee Abstract 146, *Flow-through Shares*. At the time of issue, the funds received are recorded as share capital. At the time of the filing of the renunciation of the qualifying flow-through expenditures to investors, the Company recorded a deferred tax liability with a charge directly to shareholders' equity. Also under Canadian GAAP, a portion of the deferred tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statements of operations.

IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is initially recorded as a flow-through liability and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through liability is reversed, with any difference charged to the statements of operation as deferred tax expense. A portion of the deferred tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will reduce the deferred tax liability and record a deferred tax recovery.

The change in accounting policy related to flow-through shares resulted in an increase in share capital, an increase in deficit and a decrease in deferred tax asset as at the Transition Date of $4,623,738, $5,917,438 and $1,293,700, respectively, and an increase in share capital as at December 31, 2010 of $1,293,700.

(Expressed in Canadian dollars)

c) Reclassification within Equity section

Under Canadian GAAP, "Contributed surplus" was used to record the issuance of warrants and stock options. Upon adoption of IFRS, the balances in "Contributed surplus" have been reclassified to "Stock options reserve" and "Warrants reserve".

In addition, the Company reclassified the balance of the "Accumulated other comprehensive income" that existed under Canadian GAAP into "Available-for-sale investments reserve".

d) IFRS mandatory exceptions

In accordance with IFRS 1, the Company's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under Canadian GAAP unless there is objective evidence that those estimates were in error. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS.

e) Reconciliations of Canadian GAAP to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. The following analysis represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted:

Reconciliation of Statements of Financial Position

As at January 1, 2010	note	Canadian GAAP	IFRS Adjustments	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 5,066,616	$ –	$ 5,066,616
Prepaids and receivables		368,966	–	368,966
		5,435,582	–	5,435,582
Non-current assets				
Available-for-sale investments		293,625	–	293,625
Receivables		21,598	–	21,598
Exploration and evaluation properties	*18(a)*	9,600,818	23,625	9,624,443
Equipment		31,516	–	31,516
Deferred tax asset	*18(b)*	1,293,700	(1,293,700)	–
		11,241,257	(1,270,075)	9,971,182
Total assets		$ 16,676,839	$ (1,270,075)	$ 15,406,764
Liabilities				
Current liabilities				
Trade payables and accrued liabilities		$ 136,402	$ –	$ 136,402
Equity				
Share capital	*18(b)*	30,521,027	4,623,738	35,144,765
Contributed surplus	*18(c)*	4,017,081	(4,017,081)	–
Accumulated other comprehensive income	*18(c)*	192,375	(192,375)	–
Stock options reserve	*18(a) and 18(c)*	–	2,531,789	2,531,789
Warrants reserve	*18(c)*	–	1,504,321	1,504,321
Available-for-sale investments reserve	*18(c)*	–	192,375	192,375
Deficit	*18(a) and 18(b)*	(18,190,046)	(5,912,842)	(24,102,888)
		16,540,437	(1,270,075)	15,270,362
Total liabilities and equity		$ 16,676,839	$ (1,270,075)	$ 15,406,764

(Expressed in Canadian dollars)

As at December 31, 2010	note	Canadian GAAP	IFRS Adjustments	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 6,708,529	$ –	$ 6,708,529
Available-for-sale investments		45,000	–	45,000
Prepaids and receivables		326,510	–	326,510
		7,080,039	–	7,080,039
Non-current assets				
Receivables		8,113	–	8,113
Exploration and evaluation properties	*18(a)*	17,908,880	131,548	18,040,428
Equipment		14,251	–	14,251
		17,931,244	131,548	18,062,792
Total assets		$ 25,011,283	$ 131,548	$ 25,142,831
Liabilities				
Current liabilities				
Trade payables and accrued liabilities		$ 178,000	$ –	$ 178,000
Equity				
Share capital	*18(b)*	40,265,661	5,917,438	46,183,099
Contributed surplus	*18(c)*	3,994,243	(3,994,243)	–
Accumulated other comprehensive income	*18(c)*	37,500	(37,500)	–
Stock options reserve	*18(a) and 18(c)*	–	2,844,369	2,844,369
Warrants reserve	*18(c)*	–	1,242,686	1,242,686
Available-for-sale investments reserve	*18(c)*	–	37,500	37,500
Deficit	*18(a) and 18(b)*	(19,464,121)	(5,878,702)	(25,342,823)
		24,833,283	131,548	24,964,831
Total liabilities and equity		$ 25,011,283	$ 131,548	$ 25,142,831

(Expressed in Canadian dollars)

Reconciliation of Statement of Loss and Comprehensive Loss

For the year ended December 31, 2010	note	Canadian GAAP	IFRS Adjustments	IFRS
Expenses				
Consulting fees	*18(a)*	$ 181,007	$18,114	$199,121
Depreciation		1,950	–	1,950
General exploration	*18(a)*	81,299	(81,299)	–
Interest		369	–	369
Legal and accounting		98,697	–	98,697
Office expense	*18(a)*	790,899	29,045	819,944
Shareholder information		329,875	–	329,875
Travel		41,159	–	41,159
Loss before the undernoted		(1,525,255)	34,140	(1,491,115)
Interest income		23,549	–	23,549
Gain on sale of investment		257,263	–	257,263
Flow-through share interest expense		(29,632)	–	(29,632)
Net loss		$ (1,274,075)	$ 34,140	$ (1,239,935)
Other comprehensive income (loss)				
Unrealized income on available-for-sale investments		102,388	–	102,388
Reclassification of gain on available-for-sale investments included in net loss		(257,263)	–	(257,263)
Comprehensive loss for the year		$ (1,428,950)	$ 34,140	$ (1,394,810)

(Expressed in Canadian dollars)

Reconciliation of Statement of Cash Flows

For the year ended December 31, 2010	note	Canadian GAAP	IFRS Adjustments	IFRS
Operating Activities				
Net loss for the year	*18(a)*	$ (1,274,075)	$ 34,140	$ (1,239,935)
Items not involving cash				
Depreciation		1,950	–	1,950
Gain on sale of investment		(257,263)	–	(257,263)
Share-based payments	*18(a)*	277,518	(34,140)	243,378
Change in non-cash operating working capital items:				
Increase in prepaids and other receivables		(72,752)	–	(72,752)
Decrease in trade payables and accrued liabilities		38,141	–	38,141
Cash used in operating activities		(1,286,481)	–	(1,286,481)
Investing Activities				
Exploration and evaluation property expenditures		(4,631,418)	–	(4,631,418)
Recovery of exploration and evaluation property expenditures		223,821	–	223,821
Proceeds from sale of investment		351,013	–	351,013
Proceeds from sale of exploration and evaluation property interests		300,000	–	300,000
Cash used in investing activities		(3,756,584)	–	(3,756,584)
Financing Activities				
Proceeds from exercise of stock options		58,315	–	58,315
Proceeds from exercise of compensation options		226,400	–	226,400
Proceeds from exercise of warrants		5,799,813	–	5,799,813
Proceeds from private placements		600,450	–	600,450
Cash provided by financing activities		6,684,978	–	6,684,978
Increase in cash during the year		1,641,913	–	1,641,913
Cash, beginning of year		5,066,616	–	5,066,616
Cash, end of year		$ 6,708,529	$ –	$ 6,708,529

19. SUBSEQUENT EVENTS

The following events occurred from December 31, 2011 to the date the financial statements were available to be issued on March 8, 2012:

The Company issued a total of 146,666 common shares of the Company upon exercise of stock options for total cash proceeds of $16,400.

A total 1,153,847 compensation options exercisable at $0.80 per share expired (note 10(e)).

Corporate Directory

DIRECTORS

Alan Moon (Chairman) (1)(2)(3*)
Wayne Livingstone (1)(2)(3)(4*)
Arnold Klassen (1*)(3)(4)
Brian Booth (2*)(4)
Thomas F. Morris
(Management Representative)

* Denotes Committee Chair

1 Member of the Audit Committee

2 Member of the Compensation Committee

3 Member of the Corporate Governance and Nominating Committee

4 Member of the Environment and Safety Committee

OFFICERS

Thomas F. Morris,
President and Chief Executive Officer

Casey Hetman,
VP Exploration

Scott Parsons,
VP Corporate Development

Aris Morfopoulos,
Chief Financial Officer

Dan Rothberg,
Corporate Secretary

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Email: service@computershare.com
Manage your shares online at
Computershare's Investor Centre at:
www-us.computershare.com/investor

NOTICE OF ANNUAL MEETING

The annual general meeting of shareholders will be held on
Thursday, May 3, 2012
at 1:15 pm Pacific Time (4:15 pm EST) at:

Sheraton Centre Toronto
Conference Room G
123 Queen Street West
Toronto, ON M5H 2M9

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