Alpha Gold Corp.

(An Exploration Stage Corporation)
CONDENSED
INTERIM FINANCIAL STATEMENTS
For the period ended
May 31, 2012

(Expressed in Canadian dollars)

(Unaudited – prepared by management)

May 31, 2012

Alpha Gold Corp.

Condensed Interim Statements of Comprehensive Loss
(Unaudited – prepared by management)
Expressed in Canadian dollars

	3 months Ended May 31, 2012	3 months Ended May 31, 2011
Revenue	**$ -**	$ -
Expenses		
Consulting and management fees (note 8)	12,501	4,500
Depreciation	1,680	6,673
Insurance	7,721	11,067
Office, printing and miscellaneous (note 8)	10,646	10,814
Professional fees	503	7,854
Regulatory and transfer fees	2,844	2,602
Rent	1,500	1,500
Shareholder relations	11,225	9,437
Share-based payments (note 7)	2,372	18,242
Telephone	236	255
Travel and promotion	-	48
	51,228	**72,992**
Loss before other items and income taxes	**(51,228)**	**(72,992)**
Other income		
Interest income	865	2,331
Gain on disposal of property, plant and equipment	-	1,623
Other expenses		
Interest, bank charges and foreign exchange	(41)	(44)
	824	**3,910**
Net loss before income taxes	**(50,404)**	**(69,082)**
Deferred income taxes recovery (note 9)	**12,008**	**12,710**
Loss and comprehensive loss for the period	**$ (38,396)**	**$ (56,372)**
Basic and diluted loss per share	**$ (0.00)**	**$ (0.00)**
Weighted average number of shares outstanding	**47,236,701**	**47,236,701**

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

Alpha Gold Corp.

Condensed Interim Statements of Financial Position
(Unaudited – prepared by management)
Expressed in Canadian dollars

	May 31, 2012	February 29, 2012
Assets		
Current		
Cash and cash equivalents	$ 388,604	$ 424,683
Amounts receivable	7,699	17,362
	396,303	442,045
Prepaid expense	**3,925**	4,710
Reclamation bond	**30,000**	30,000
Exploration and evaluation assets (note 4 and Schedule)	**11,766,836**	11,766,136
Equipment (note 5)	**20,939**	22,619
	$ 12,218,003	$ 12,265,510
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	$ 44,243	$ 43,718
	44,243	43,718
Deferred income tax liability (note 9)	**1,169,026**	1,181,034
	1,213,269	1,224,752
Shareholders' Equity		
Share capital (note 6)	**17,159,773**	17,159,773
Contributed surplus	**663,787**	661,415
Deficit	**(6,818,826)**	(6,780,430)
	11,004,734	11,040,758
	$ 12,218,003	$ 12,265,510

Nature and Continuance of Operations (note 1)

Approved on behalf of the Directors:

"Carl Pines" **Director**

"Mary P. Webster" **Director**

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

Condensed Interim Statements of Changes in Shareholders' Equity
(Unaudited – prepared by management)
Expressed in Canadian dollars

	Share Capital Shares	Share Capital Amount	Contributed Surplus	Deficit	Total Equity
Balance, March 1, 2011	47,236,701	$17,159,773	$ 580,742	$(6,494,402)	$11,246,113
Share-based payments	-	-	18,242	-	18,242
Loss for the period	-	-	-	(56,372)	(56,372)
Balance, May 31, 2011	47,236,701	17,159,773	598,984	(6,550,774)	11,207,983
Share-based payments	-	-	62,431	-	62,431
Loss for the period	-	-	-	(229,656)	(229,656)
Balance, February 28, 2012	47,236,701	17,159,773	661,415	(6,780,430)	11,040,758
Share-based payments	-	-	2,372	-	2,372
Loss for the period	-	-	-	(38,396)	(38,396)
Balance, May 31, 2012	**47,236,701**	**$17,159,773**	**$ 663,787**	**$(6,818,826)**	**$11,004,734**

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

Alpha Gold Corp.

Condensed Interim Statements of Cash Flows
(Unaudited – prepared by management)
Expressed in Canadian dollars

	3 months ended May 31, 2012	3 months ended May 31, 2011
Cash flows provided by (used in)		
Operating activities		
Net loss for the period	$ (38,396)	$ (56,372)
Items not affecting cash		
Depreciation	1,680	6,673
Deferred income taxes	(12,008)	(12,710)
Share-based payments	2,372	18,242
Gain on disposal of property, plant and equipment	-	(1,623)
	(46,352)	(45,790)
Changes in non-cash working capital items:		
Decrease (increase) in amounts receivable	9,663	6,217
Increase (decrease) in accounts payable	525	(9,373)
	(36,164)	(48,946)
Financing activities		
	-	-
	-	-
Investing activities		
Exploration properties	85	(14,559)
Proceeds from disposal of equipment	-	16,072
	85	1,513
Net decrease in cash and cash equivalents	**(36,079)**	(47,433)
Cash and cash equivalents, beginning of the period	**424,683**	919,854
Cash and cash equivalents, end of the period	**$ 388,604**	$ 872,421
Cash and cash equivalents comprise:		
Bank deposits	**$ 35,279**	$ 172,421
Term deposit	**$ 353,325**	$ 700,000
Supplemental cash flow information		
Interest received	**$ 865**	$ 2,311
Income taxes received (paid)	**$ -**	$ **-**

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

1. Nature and Continuance of Operations

Alpha Gold Corp. (the "Company") was incorporated under the laws of British Columbia, Canada on February 25, 1985. The Company is primarily engaged in the acquisition, exploration and development of mineral properties located in Canada. The Company's corporate office and principal place of business is 410 Donald Street, Coquitlam, British Columbia, Canada.

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The investment in and expenditures on exploration properties comprise a significant portion of the company's assets. Realization of the Company's investment in these assets is dependent upon obtaining the necessary financing to continue exploration and development of the properties, the attainment of successful production from the properties or from the proceeds of their disposal.

The continuing operations of the Company are dependent upon its ability to continue to raise capital to funds its exploration and development programs. The Company has suffered recurring losses from operations that raise doubt about its ability to continue as a going concern. Management has assessed that the Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation is dependent upon its ability to attain profitable operations or obtain adequate financing. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. Basis of preparation

(a) Statement of Compliance

These condensed interim financial statements for the three month period ended May 31, 2012 have been prepared in accordance with IAS 34 - *Interim Financial Reporting.* These condensed interim financial statements do not include all of the information required for full annual financial statements. These condensed interim financial statements should be read in conjunction with the Company's 2012 annual financial statements.

These condensed interim financial statements were authorized for issue by the Board of Directors on July 25, 2012.

(b) Basis of Measurement

These condensed interim financial statements have been prepared on a historical cost basis except for financial instruments classified as FVTPL and available-for-sale which are stated at their fair value.

These condensed interim financial statements are presented in Canadian dollars, which is also the Company's functional currency.

2. Basis of preparation - continued

(c) Use of Estimates and Judgments

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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Financial results as determined by actual events could differ from these estimates.

The estimates and underlying assumptions are continuously evaluated and reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Significant areas requiring the use of management estimates include impairment of mineral properties; impairment of property and equipment; useful lives for amortization of property and equipment; reclamation and environmental obligations; determining the provision for deferred income taxes and contingencies reported in the notes to the financial statements.

Areas of significant judgment include the classification of financial instruments and the classification of exploration and evaluation expenditures, which requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. The accounting policies have been applied consistently by the Company.

The condensed interim financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) <u>Cash and cash equivalents</u>

Cash and cash equivalents consist of cash on hand, bank balances, term deposits and investments with maturities of three months or less from the date of purchase that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

b) <u>Financial instruments</u>

Financial instruments recognized in the balance sheet include cash and cash equivalents, amounts receivable, reclamation bond and accounts payable and accrued liabilities.

3. Significant Accounting Policies – continued

b) Financial instruments- continued

Financial assets

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit and loss.

The Company has classified cash and cash equivalents as FVTPL.

Available-for-sale financial assets (“AFS”)

AFS financial assets are initially recognized at fair value and are subsequently carried at fair value with changes recognized in other comprehensive income or loss.

The Company has classified reclamation bond as AFS.

Loans and receivables

Trades receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.

The Company has classified amounts receivable as loans and receivables.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. Objective evidence of impairment could include the following:

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

Where impairment has occurred, the cumulative loss is recognized in the income statement.

Financial liabilities

Other financial liabilities

Other financial liabilities consist of accounts payable and accrued liabilities and are measured at amortized cost.

Expressed in Canadian dollars

3. Significant Accounting Policies – continued

b) Financial instruments- continued

The Company holds various financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The Company has designated its cash and cash equivalents as FVTPL, which are measured at fair value. Reclamation bond is classified as AFS, which is measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Transaction costs are expensed as incurred.

The carrying amounts and fair values of financial assets and liabilities are as follows:

	May 31, 2012		February 29, 2012	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
FVTPL				
Cash and cash equivalents	**$388,604**	**$388,604**	$424,683	$424,683
Loans and receivables				
Amounts receivable	**7,699**	**7,699**	17,362	17,362
Available-for-sale financial assets				
Reclamation bond	**30,000**	**30,000**	30,000	30,000
Financial liabilities				
Accounts payables and accrued liabilities	**44,243**	**44,243**	43,718	43,718

c) Exploration and evaluation expenditures

Pre -exploration costs
Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures
Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transfee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf.

3. Significant Accounting Policies – continued

c) Exploration and evaluation expenditures- continued

Any cash or other consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess consideration accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties. As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

d) Mineral tax credit

The Federal and Provincial taxation authorities provide companies with tax incentives for undertaking mineral exploration programs in certain areas. The Company accounts for these credits as a reduction of exploration and evaluation expenditures in the period that the credits are received. These credits are subject to review by the relevant authorities and by their nature are subject to measurement uncertainty. Adjustments if any, resulting from such a review are recorded in the period that the tax filings are amended.

e) Equipment

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

Cost consists of the purchase price, any costs directly attributable to bringing the asset 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.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items. The amortization method, useful life and residual values are assessed annually.

Amortization is determined using the declining balance method, using the rates below which approximate the estimated useful life of the asset:

3. Significant Accounting Policies – continued

e) Equipment- continued

Computer equipment	-30% & 45% per annum
Furniture & fixtures	-20% per annum
Machinery & equipment	-30% per annum
Trucks	-30 % per annum

Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statement of comprehensive income or loss.

f) Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the assets are reviewed to determine whether there is any indication that those assets are impaired. Impairment is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The impairment loss is recognized in the income statement for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized immediately in profit and loss.

g) Rehabilitation obligations

The Company recognizes the fair value of a legal or constructive liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of comprehensive income (loss). Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company does not have significant asset retirement obligations.

h) Income taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

3. Significant Accounting Policies - continued

h) Income taxes - continued

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

i) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants, options and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are recognized as a deduction from equity, net of tax.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until qualifying expenditures are incurred.

3. Significant Accounting Policies - continued

j) Per share amounts

Basic income per common share is computed by dividing the net income for the year by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the period.

k) Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss/income over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

3. Significant Accounting Policies – continued

k) Share-based payments- continued

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

l) New accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the May 31, 2012 reporting period. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 (or as noted) with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

IAS 1 - Amendments to IAS 1 Presentation of Financial Statements
These amendments stipulate the presentation of net earnings and OCI and also require the Company to group items with OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective for fiscal years beginning on or after July 31, 2012 with retrospective application and early adoption permitted.

IAS 12 – Income Taxes – Amendments Regarding Deferred Tax: Recovery of Underlying Assets
These amendments are applicable to annual reporting periods beginning on or after January 1, 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life.

IAS 27 – Separate Financial Statements
IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements.

IAS 28 – Investment in Associates
IAS 28 was amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

IFRS 7 – Financial Instruments: Disclosures – Disclosures on Transfers of Financial Assets
These amendments are applicable to annual reporting periods beginning on or after July 1, 2011. These amendments add and amend disclosure requirements about transfers of financial assets, including the nature of the financial assets involved and the risks associated with them.

3. Significant Accounting Policies – continued

l) New accounting pronouncements

IFRS 9 – Financial Instruments
IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income.

IFRS 10 – Consolidated Financial Statements
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities
IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Expressed in Canadian dollars

4. Exploration and Evaluation Assets

	May 31, 2012	February 29, 2012
Acquisition costs	$ 513,682	$ 513,682
Deferred expenditures (Schedule)	11,253,154	11,252,454
	$ 11,766,836	$ 11,766,136

a) Lust Dust Claims

i) On July 15, 1989, the Company acquired a 100% interest in certain mineral claims located in the Omineca Mining Division, British Columbia for cash of $170,000. The vendor retains a royalty of 3% of net smelter returns.

ii) On February 21, 1992, the Company acquired a 100% interest in certain mineral claims located in the Omineca Mining Division, British Columbia for $100,000 cash and 200,000 shares of the company at a deemed consideration of $0.60 each (previously subject to a 5% net profit interest to a maximum of $100,000 and a royalty of 2% of net smelter returns). In July 2003, the company acquired the retained "5% net profit interest and the 2% net smelter return royalty" for $150,000 cash.

5. Equipment

	Computer equipment	Furniture & fixtures	Machinery & equipment	Trucks	Total
Cost					
Balance, February 28, 2011	$ 8,878	$ 17,375	$ 23,742	$ 251,987	$ 301,982
Additions	-	1,032	-	-	1,032
Disposals	-	(1,125)	-	(197,048)	(198,173)
Balance, February 29, 2012	8,878	17,282	23,742	54,939	104,841
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance, May 31, 2012	$ 8,878	$ 17,282	$ 23,742	$ 54,939	$ 104,841
Depreciation					
Balance, February 28, 2011	$ 7,007	$ 16,346	$ 10,254	$ 164,609	$ 198,216
Depreciation for the year	561	281	4,047	17,567	22,456
Disposals	-	-	-	(138,450)	(138,450)
Balance, February 29, 2012	7,568	16,627	14,301	43,726	82,222
Depreciation for the year	98	33	708	841	1,680
Disposals	-	-	-	-	-
Balance, May 31, 2012	$ 7,666	$ 16,660	$ 15,009	$ 44,567	$ 83,902

Expressed in Canadian dollars

5. Equipment- continued

Carrying amounts	Computer equipment	Furniture & fixtures	Machinery & equipment	Trucks	Total
As at February 28, 2011	$ 1,871	$ 1,029	$ 13,488	$ 87,378	$ 103,766
As at February 29, 2012	$ 1,310	$ 655	$ 9,441	$ 11,213	$ 22,619
As at May 31, 2012	$ 1,212	$ 622	$ 8,733	$ 10,372	$ 20,939

6. Share Capital

a) Authorized

100,000,000 common shares with no par value

b) Share issuances

There were no share issuances during the current period or during the year ended February 29, 2012.

c) Warrants outstanding

Warrant transactions for the respective years are summarized as follows:

	Number of warrants	Exercise price
Balance, February 28, 2011	10,417,887	$ 0.25-0.35
Warrants issued	-	$ -
Balance, February 29, 2012 and May 31, 2012	10,417,887	$ 0.25-0.35

A summary of the Company's warrants outstanding at May 31, 2012 are as follows:

	Number of warrants outstanding	Exercise price	Expiry date
Warrants	8,888,887	$ 0.25-0.35	June 7, 2012*
Warrants	1,480,000	$ 0.25-0.35	August 18, 2012
Finder's warrants	49,000	$ 0.25-0.35	August 18, 2012

*Subsequent to the period ended May 31, 2012, these warrants expired unexercised

Expressed in Canadian dollars

6. Share Capital- continued

d) Options outstanding

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. The options granted under the Plan may not exceed 10% of the Company's issued and outstanding shares of the Company at the award date. Options granted under the Plan may have a maximum term of ten years. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant.

	Number of options	Weighted average exercise price
Balance, February 28, 2011	4,322,222	$ 0.14
Options granted	1,000,000	0.10
Options forfeited	(500,000)	(0.13)
Balance, February 29, 2012 and May 31, 2012	4,822,222	$ 0.13

A summary of the Company's options outstanding at May 31, 2012 are as follows:

Number of options outstanding	Number of options exercisable	$ per share	Expiry date
622,222	622,222	$ 0.09	June 7, 2012*
1,450,000	1,450,000	$ 0.20	July 20, 2014
1,750,000	1,750,000	$ 0.10	July 23, 2015
1,000,000	1,000,000	$ 0.10	May 30, 2016

*Subsequent to the period ended May 31, 2012, these options expired unexercised

7. Share-based Payments

During the period ended May 31, 2012, the Company did not grant any stock options to directors, officers, employees and consultants of the Company.

During the year ended February 29, 2012, the Company granted 1,000,000 stock options to directors, officers, employees and consultants of the Company. The fair value of stock options granted of $0.04 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: Dividend yield Nil, expected volatility 119%; risk-free interest rate 2.32%; and weighted average life of 5 years.

Based on the fair values for the options vested during the period, compensation expense of $2,372 (2011 – $18,242) was recorded in operations for the period, and credited to contributed surplus.

Expressed in Canadian dollars

8. Related Party Transactions

During the period, the Company paid fees of $12,501 (2011 - $14,500) for contract negotiation, property investigation, property acquisition, site investigation and management of field program, $Nil (2011 – $4,500) for directors fees, $10,500 (2011 - $10,500) for secretarial and bookkeeping services, and $1,500 (2011 - $1,500) for office rental, and $2,372 (2011 - $18,242) in share-based payments, to directors and officers of the Company or companies controlled by directors of the Company.

All related party transactions in the normal course of business have been measured at the agreed upon exchange amounts, which is the amount of consideration established and agreed to by the related parties.

9. Income Taxes

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	May 31, 2012	May 31, 2011
Income (loss) for the period before income taxes	$ (50,404)	$ (69,082)
Statutory Canadian corporate rates	25.00%	28,17%
Anticipated tax expense (recovery)	$ (12,601)	$ (19,458)
Effect of tax rate change	-	1,610
Items not deductible for tax purposes	593	5,138
Actual income tax recovery	**$ (12,008)**	$ (12,710)

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	May 31, 2012	February 29, 2012
Deferred income tax assets:		
Non-capital loss carry-forwards	$ 599,567	$ 587,326
Property and equipment	88,126	87,706
Share issue costs	9,292	9,945
Capital losses	1,531	1,531
Tax benefits not recognized	(76,146)	(76,146)
	622,370	610,362
Deferred income tax liability:		
Mineral properties	**(1,791,396)**	(1,791,396)
Net future income tax liability	**$ (1,169,026)**	$ (1,181,034)

Expressed in Canadian dollars

9. Income Taxes- continued

At May 31, 2012, subject to confirmation by income tax authorities, the Company has available non-capital losses of approximately $2,397,000, Cumulative Canadian Exploration Expenses of approximately $3,065,000, Cumulative Canadian Development Expenses of approximately $691,000 and Cumulative Foreign Exploration and Development Expenses of approximately $845,000 which may be carried forward to reduce taxable income in future years. The non-capital losses expire as follows:

2015	$ 136,000
2016	168,000
2027	217,000
2028	406,000
2029	273,000
2030	381,000
2031	448,000
2032	319,000
2033	49,000
	$ 2,397,000

10. Capital Management

The Company includes cash and cash equivalents and equity, comprising of issued common shares, contributed surplus and deficit, in the definition of capital.

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended May 31, 2012. The Company is not subject to externally-imposed capital requirements.

Expressed in Canadian dollars

11. Financial Instruments

All financial instruments measured at fair value are categorized into a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are described below:

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

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

May 31, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 388,604	$ -	$ -	$ 388,604
Reclamation bond	30,000	-	-	30,000
	$ 418,604	$ -	$ -	$ 418,604

February 29, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 424,683	$ -	$ -	$ 424,683
Reclamation bond	30,000	-	-	30,000
	$ 454,683	$ -	$ -	$ 454,683

11. Financial Instruments- continued

As disclosed in Note 3 (b), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to concentration risk, credit risk, currency risk and price risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.The types of risk exposure and the way in which such exposures are managed are as follows:

Credit Risk - The Company's credit risk is primarily attributable to its liquid financial assets. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions. The Company does not have financial assets that are invested in asset backed commercial paper.

Liquidity Risk – The Company ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company believes that these sources will be sufficient to cover the likely short and long term cash requirements. The Company's cash is invested in business accounts with quality financial institutions and which is available on demand for the Company's programs.

Market Risk – The significant market risk exposures to which the Company is exposed are interest rate risk and commodity price risk. For the period ended May 31, 2012, every 1% fluctuation in interest rates up or down would have impacted net income up or down by approximately $3,500 before income taxes.

Interest rate risk – In respect to the Company's financial assets, the interest rate mainly arises from the interest rate impact on our cash and cash equivalents and reclamation deposits.

Commodity price risk – The value of the Company's mineral resource properties is related to the price of various commodities and the outlook for them. Commodity prices have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production and short-term changes in supply and demand.

May 31, 2012

	3 months ended May 31, 2012	Year ended February 29, 2012
Exploration		
Assaying	$ -	$ 18,943
Camp expenses	700	38,852
Drilling	-	-
Geological/geochemical work and reports	-	283,102
On-site management	-	2,000
Roadwork/Reclamation	-	33,346
Travel	-	5,250
	700	381,493
BC Mining tax credit	**-**	(73,015)
Expenses for the period	**700**	308,478
Balance, beginning of period	**11,252,454**	10,943,976
Balance, end of period	**$ 11,253,154**	$ 11,252,454