

# **TELFERSCOT RESOURCES INC.**

## **Interim Consolidated Financial Statements**

**Three month periods ended March 31, 2012 and 2011**

**(Stated in \$CAD)**

**(Unaudited - Prepared by Management)**

**(These unaudited interim consolidated financial statements, prepared by management, have not been reviewed by the company's external auditors)**

**TELFERSCOT RESOURCES INC.**  
**Consolidated Statements of Financial Position**  
**As at March 31, 2012 and December 31, 2011**  
**(Stated in \$CAD)**  
**(Unaudited - Prepared by Management)**

	<u>March 31</u> <u>2012</u>	<u>December 31</u> <u>2011</u>
<b>ASSETS</b>		
<b>Current:</b>		
Cash	\$ 326,920	\$ 751,419
Term deposits	588,406	580,855
Accounts receivable (Note 5)	37,553	32,626
Prepaid expenses	2,546	6,478
Advances to DRC operations (Note 6)	171,371	249,489
	<u>\$ 1,126,796</u>	<u>\$ 1,620,867</u>
<b>LIABILITIES</b>		
<b>Current:</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 92,824	\$ 94,817
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	2,943,920	2,943,920
Reserve for warrants (Note 9)	23,500	23,500
Reserve for share based payments (Note 10)	119,167	119,167
Accumulated deficit	(2,039,060)	(1,552,183)
Accumulated other comprehensive income (loss)	(13,555)	(8,354)
	<u>1,033,972</u>	<u>1,526,050</u>
	<u>\$ 1,126,796</u>	<u>\$ 1,620,867</u>

**Going concern** (Note 1(c))

**Subsequent events** (Note 17)

**Commitments** (Note 18)

See accompanying notes

Approved on behalf of the Board:

"Gerry Gravina", Director

"Stephen Coates", Director

**TELFERSCOT RESOURCES INC.**  
**Interim Consolidated Statements of Loss and Comprehensive Loss**  
**Three month periods ended March 31, 2012 and 2011**  
**(Stated in \$CAD)**  
**(Unaudited - Prepared by Management)**

	<u>March 31</u> <u>2012</u>	<u>March 31</u> <u>2011</u>
<b>Revenue</b>		
Interest income	\$ <u>1,510</u>	\$ <u>-</u>
<b>Expenses</b>		
Exploration expenditures (Note 12(c))	413,877	18,512
Corporate overhead	53,332	24,902
Professional fees	12,299	37,178
Insurance	3,933	-
Office and general	3,025	3,226
Listing fees, transfer agent and other	1,921	13,590
	<u>488,387</u>	<u>97,408</u>
<b>Net loss</b>	<u>\$ (486,877)</u>	<u>\$ (97,408)</u>
<b>Basic and diluted loss per share (Note 11)</b>	<u>\$ (0.013)</u>	<u>\$ (0.004)</u>
 <b>Comprehensive income (loss)</b>		
Net loss	\$ (486,877)	\$ (97,408)
Exchange differences on translation of foreign operations	<u>(5,201)</u>	<u>-</u>
<b>Comprehensive loss</b>	<u>\$ (492,078)</u>	<u>\$ (97,408)</u>

See accompanying notes

**TELFERSCOT RESOURCES INC.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**Period from May 1, 2010 to March 31, 2012**  
(Stated in \$CAD)  
(Unaudited - Prepared by Management)

	Share Capital		Warrants	Share based payments	Accumulated deficit	Accumulated other comprehensive loss	Total
	Number of shares	Amount					
<b>Balance at May 1, 2010</b>	-	\$ -	-	-	-	-	\$ -
Private placements for cash	19,390,000	799,000	-	-	-	-	799,000
Portion of private placements ascribed to warrants	-	16,000	16,000	-	-	-	-
Issued in consideration for Stephens Lake acquisition	2,500,000	30,000	-	-	-	-	30,000
Net loss for the year	-	-	-	-	(100,406)	-	(100,406)
Currency translation adjustment	-	-	-	-	-	-	-
<b>Balance at December 31, 2010</b>	<b>21,890,000</b>	<b>813,000</b>	<b>16,000</b>	<b>-</b>	<b>(100,406)</b>	<b>\$ -</b>	<b>728,594</b>
Private placements for cash	6,635,000	663,500	-	-	-	-	663,500
Issued in consideration for acquisition of 1830953 Ontario Inc.	4,674,200	467,420	7,500	-	-	-	474,920
Private placement for cash	4,000,000	1,000,000	-	0	-	-	1,000,000
Share based payments	-	-	-	119,167	-	-	119,167
Currency translation adjustment	-	-	-	-	-	(8,354)	(8,354)
Net loss for the year	-	-	-	-	(1,451,777)	-	(1,451,777)
<b>Balance at December 31, 2011</b>	<b>37,199,200</b>	<b>2,943,920</b>	<b>23,500</b>	<b>119,167</b>	<b>(1,552,183)</b>	<b>(8,354)</b>	<b>1,526,050</b>
Currency translation adjustment	-	-	-	-	-	(5,201)	(5,201)
Net loss for the year	-	-	-	-	(486,877)	-	(486,877)
<b>Balance at March 31, 2012</b>	<b>37,199,200</b>	<b>\$ 2,943,920</b>	<b>\$ 23,500</b>	<b>\$ 119,167</b>	<b>\$ (2,039,060)</b>	<b>(13,555)</b>	<b>\$ 1,033,972</b>

See accompanying notes

**TELFERSCOT RESOURCES INC.**  
**Interim Consolidated Statements of Cash Flows**  
**Three month periods ended March 31, 2012 and 2011**  
**(Stated in \$CAD)**  
**(Unaudited - Prepared by Management)**

	<u>March 31</u> <u>2012</u>	<u>March 31</u> <u>2011</u>
<b>Operating activities</b>		
Net loss	\$ (486,877)	\$ (97,408)
<b>Add (deduct) items not affecting cash:</b>		
Exchange differences on translation of foreign operations	<u>(5,202)</u>	<u>-</u>
	<b>(492,079)</b>	<b>(97,408)</b>
<b>Change in non-cash working capital items</b>		
Accounts receivable	<b>(4,927)</b>	(9,000)
Prepaid expenses	<b>3,932</b>	(1,097)
Advances to DRC operations	<b>78,118</b>	-
Accounts payable and accrued liabilities	<b>(1,992)</b>	30,752
Prepaid share subscriptions	<u>-</u>	<u>(98,466)</u>
	<b>(416,948)</b>	<b>(175,219)</b>
<b>Investing activities</b>		
Term deposits	<b>(7,551)</b>	(1,230,855)
Cash in trust	<u>-</u>	<u>628,307</u>
	<b>(7,551)</b>	<b>(602,548)</b>
<b>Financing activities</b>		
Proceeds from issuance of share capital (net of issuance costs)	<u>-</u>	<u>663,500</u>
<b>Decrease in cash</b>	<b>(424,499)</b>	<b>(114,267)</b>
Cash, beginning of period	<u>751,419</u>	<u>204,604</u>
<b>Cash, end of period</b>	<b>\$ 326,920</b>	<b>\$ 90,337</b>

See accompanying notes

**TELFERSCOT RESOURCES INC.**  
**Notes to Interim Consolidated Financial Statements**  
**Three month periods ended March 31, 2012 and 2011**  
**(Stated in \$CAD)**  
**(Unaudited - Prepared by Management)**

**1. NATURE OF OPERATIONS AND GOING CONCERN**

**(a) Nature of operations**

Telferscot Resources Inc. ("the company") was incorporated under the Canada Business Corporations Act on May 31, 2010 and is engaged in the acquisition and exploration of resource properties, currently having interests in exploration licenses in Manitoba and the Democratic Republic of Congo ("DRC"). It has registered offices at 401 Bay Street, Suite 2702, Toronto, Ontario, Canada, M5H 2Y4 and is a reporting issuer in the Provinces of Ontario, British Columbia, Alberta, and Manitoba. The company trades under the symbol "TFS" on the CNSX exchange.

**(b) Development stage enterprise**

As the company is a development stage enterprise, it has not yet determined whether its interests in exploration licenses contain reserves that are economically recoverable. Its ability to recover amounts from these properties is dependent upon a number of factors including environmental risks, legal and political risks, the discovery of economically recoverable reserves, confirmation of the company's interest in the underlying properties, the ability of the company to obtain necessary financing to complete the development and future profitable production or proceeds from the disposition of the properties. It is considered to be a development stage enterprise as it has yet to generate any revenue from operations.

Although the company has taken steps to verify title to the exploration licenses on which it is conducting exploration and in which it has an interest, these procedures do not guarantee the company's title. Although management is not aware of any such agreements, transfers or defects, title may be subject to unregistered prior agreements, claims or transfers and may be affected by undetected defects. Assets located outside of North America are subject to the risk of foreign investment, including currency exchange fluctuations and restrictions and local political instability and uncertainty.

The company's operations in the DRC are exposed to various levels of political risk and uncertainties, including political and economic instability, government regulations relating to exploration and mining, military repression and civil disorder, all or any of which may have a material adverse impact on the company's activities or may result in impairment in or loss of part or all of the company's assets

The company faces risks and uncertainties including: (i) the inability to obtain the financing necessary to complete the development of its license interests, (ii) realization of proceeds from the sale of its exploration license interests, or (iii) the company's exploration licenses, permits or concessions being revoked as a result of title disputes, a failure to comply with agreements or security issues preventing the safe exploration and development of any properties under license.

**TELFERSCOT RESOURCES INC.**  
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**1. NATURE OF OPERATIONS AND GOING CONCERN, CONTINUED**

**(c) Going concern**

The accompanying unaudited interim consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited interim financial statements. Such adjustments could be material.

As at March 31, 2012, the company has no source of operating cash flow and has a deficit of \$2,039,060 (December 31, 2010 - \$1,552,183). Comprehensive loss for the three month period ended March 31, 2012 was \$492,078 (March 31, 2011 - \$97,408). Operations since inception have been funded solely from the issue of share capital. The company has spending requirements with respect to its DRC exploration license as described in note 4.(a)). Failure to spend the required amounts within the required time frame would preclude the company from earning its possible 60% interest in the DRC exploration license.

While management believes that it will be able to secure the necessary financing to continue operations into the future, there is no certainty that these and other strategies will be sufficient to permit the company to continue beyond the foreseeable future as such strategies are dependent upon continued support of its shareholder base.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of compliance**

The company is following the same accounting policies and methods of computation in these unaudited interim consolidated financial statements as it did in the audited consolidated financial statements for the year ended December 31, 2011.

These unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These unaudited interim consolidated financial statements have not been reviewed by the company's external auditors.

**TELFERSCOT RESOURCES INC.**  
**Notes to Interim Consolidated Financial Statements**  
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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(b) **Basis of presentation**

The unaudited interim consolidated financial statements have been prepared on the historical cost basis as modified by the measurement at fair value of financial assets classified as fair value through profit and loss ("FVTPL").

The accounting policies set out below have been applied consistently to all periods presented in the unaudited interim consolidated financial statements and are consistent with those used in the most recent annual audited financial statements.

(c) **Consolidation**

All entities in which the company has a controlling interest, specifically when it has the power to direct the financial and operational policies of these companies to obtain benefit from their operations, are fully consolidated.

These unaudited interim consolidated financial statements include the accounts of the company and the accounts of its wholly-owned subsidiary, 1830953 Ontario Inc. ("Numco"), an Ontario company (*see note 4 re asset acquisition*).

Intercompany balances and any unrealized gains and losses or income and expenses arising from intercompany transactions are eliminated in preparing the unaudited interim consolidated financial statements.

(d) **Functional currency and foreign currency translation**

***Functional and presentation currency***

The financial statements are presented in Canadian dollars, which is also the functional currency of the corporate offices located in Canada. The functional currency of the DRC operations is the US dollar.

***Foreign currency translation***

Foreign currency transactions are initially recorded into the functional currency at the transaction date exchange rate. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the exchange rate at the end of the reporting period with all foreign currency adjustments being expensed.

Financial results of the DRC operations, for which the functional currency is the US dollar, are translated into Canadian dollars, the presentation currency of the parent, as follows: all asset and liability accounts (including non-monetary and capital items) are translated at the period-end exchange rate and all revenue and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income.



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**2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**(e) Cash**

Cash consists of deposits held with banks.

**(f) Term deposits**

Term deposits are highly liquid investments with original terms to maturity greater than three months.

**(g) Mineral properties**

All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment ("PPE"). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

**(h) Provisions**

A provision is recognized on the unaudited statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(i) Environmental rehabilitation provision**

The company's activities could give rise to obligations for environmental rehabilitation which can include facilities dismantling, removal, treatment of waste materials, monitoring, compliance with environmental regulations, security and other site-related costs required to perform the rehabilitation work. Any current expenditures regarding the environmental rehabilitation are charged to the cost of the project. Provisions for rehabilitation are periodically adjusted by the company, when applicable

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**2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**(j) Deferred taxes**

Deferred taxes are recorded for temporary differences existing at closing date between the tax base value of assets and liabilities and their carrying amount in the unaudited consolidated statements of financial position.

Deferred tax assets and liabilities are measured at the expected tax rates for the period during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantially enacted by the closing date. They are reviewed at the end of each period, in line with any changes in applicable tax rates.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of tax losses and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists, to make use of those deductible temporary differences, tax loss carry-forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and which, at the transaction date, does not impact neither earnings, nor tax income or loss.

Current tax and deferred tax shall be charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

**(k) Share based payments**

The company offers a share option plan for its directors, officers, employees and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured using the Black Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. Any consideration paid on exercise of share options is credited to capital stock. The contributed surplus resulting from share based payment is transferred to capital stock when the options are exercised.

For equity settled transactions, the company measures goods or services received at their fair value, unless that fair value cannot be estimated reliably, in which case the company measures their value by reference to the fair value of the equity instruments granted.

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**Notes to Interim Consolidated Financial Statements**  
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**(Stated in \$CAD)**  
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**2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**(l) Earnings (loss) per share**

Basic earnings (loss) per share amounts are calculated by dividing net earnings (loss) for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per share amounts are calculated by dividing the net earnings (loss) attributable to common shareholders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

**(m) Measurement uncertainty**

The preparation of these unaudited interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited interim consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(n) Critical accounting estimates**

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made relate, but are not limited, to the following:

- (i) the recoverability of costs incurred to acquire exploration license interests;
- (ii) the inputs used in accounting for share based payment transactions and in valuation of warrants included in marketable securities;
- (iii) management assumption of no material provisions or obligations, based on the facts and circumstances that existed during the period. during the period;
- (iv) the assumptions made in utilizing the Black-Scholes option pricing model to determine the fair values of the share-based payments and warrants; and
- (v) the functional currency for the company and its operations is the currency of the primary economic environment in which each operates, the determination of which may require certain judgements to be made.

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**Notes to Interim Consolidated Financial Statements**  
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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(o) **Accumulated other comprehensive income (loss)**

Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Certain gains and losses arising from changes in fair value are temporarily recorded outside the consolidated statement of operations in accumulated comprehensive income as a separate component of shareholders' equity. Other comprehensive income (loss) may include any unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the currency used for presentation and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of taxes.

(p) **Financial instruments**

***Financial assets***

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held to maturity investments ("HTM"), or available for sale financial assets ("AFS"), as appropriate at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. A financial asset is derecognized when its contractual rights to the asset's cash flows expire or if substantially all the risks and rewards of the asset are transferred.

***Financial assets at FVTPL***

A financial asset is classified as FVTPL when the financial asset is held for trading or it is designated upon initial recognition as an FVTPL. A financial asset is classified as held for trading if (1) it has been acquired principally for the purpose of selling or repurchasing in the near term; (2) it is part of an identified portfolio of financial instruments that the company manages and has an actual pattern of short term profit taking; or (3) it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are carried in the unaudited interim consolidated statements of financial position at fair value with changes in fair value recognized in the unaudited interim consolidated statements of loss and comprehensive loss. Transaction costs are expensed as incurred. The company has classified cash and term deposits as FVTPL.

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**Notes to Interim Consolidated Financial Statements**  
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2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(p) Financial instruments, continued

*Loans and receivables*

Trade 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. Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost less losses for impairment. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the period in which they are identified. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the unaudited interim consolidated statements of loss and comprehensive loss when the loans and receivables are derecognized or impaired, as well as through the depreciation process. The company has classified accounts receivable, prepaid expenses and advances to DRC operations as loans and receivables.

*AFS financial assets*

Non derivative financial assets not included in the above categories are classified as AFS financial assets. They are carried at fair value with changes in fair value generally recognized in other comprehensive loss and accumulated in the AFS reserve. Impairment losses are recognized in the unaudited interim consolidated statements of loss and comprehensive loss. Purchases and sales of AFS financial assets are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in the AFS reserve. On sale, the cumulative gain or loss recognized in other comprehensive income is reclassified from accumulated other comprehensive income. The company has not designated any of its financial assets as AFS.

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**Notes to Interim Consolidated Financial Statements**  
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2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(p) Financial instruments, continued

*Impairment of financial assets*

The company assesses at each reporting date whether a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective rate.

The carrying amount of all financial assets, excluding accounts receivable, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. Associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the company. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the unaudited interim consolidated statements of loss and comprehensive loss. A provision for impairment is made in relation to accounts receivable, and an impairment loss is recognized in the unaudited interim consolidated statements of loss and comprehensive loss when there is objective evidence that the company will not be able to collect all of the amounts due under the original terms. With the exception of AFS equity instruments, if, in a subsequent period, the amount of impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the unaudited interim consolidated statements of loss and comprehensive loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had the impairment not been recognized.

*Effective interest method*

The effective interest method calculates the amortized cost of a financial instrument asset or liability and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset or liability, or where appropriate, a shorter period. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

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**2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(p) **Financial instruments, continued**

***Financial liabilities***

Financial liabilities are classified as FVTPL, or other financial liabilities, as appropriate upon initial recognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent to the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The company's other financial liabilities include accounts payables and accrued liabilities.

Financial liabilities are classified as FVTPL if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments (including separated embedded derivatives) unless they are designated as effective hedging instruments. Gains or losses on liabilities classified as FVTPL are recognized in the unaudited interim consolidated statement of loss and comprehensive loss.

***Financial hierarchy***

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

**Level 1:** valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2:** valuation techniques based on 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:** valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**3. ADOPTION OF NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS**

(a) **IFRS 9 Financial Instruments** ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

(b) **IFRS 10 Consolidated Financial Statements** ("IFRS 10") establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidated – Special Purpose Entities" and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

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**3. ADOPTION OF NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS, CONTINUED**

- (c) **IFRS 11 Joint Arrangements** (“IFRS 11”) establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes the current IAS 31 “Interests in Joint Ventures” and SIC 13 “Jointly Controlled Entities – Non Monetary Contributions by Venturers” and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (d) **IFRS 12 Disclosure of Interests in Other Entities** (“IFRS 12”) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (e) **IFRS 13 Fair Value Measurements** (“IFRS 13”) defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRS that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2015. Earlier application is permitted.
- (f) **IAS 19 - Employee Benefits** (“IAS 19”) amends the existing standard to eliminate options to defer the recognition of gains and losses in defined benefit plans, requires remeasurement of a defined benefit plan’s assets and liabilities to be presented in other comprehensive income and increases the disclosure.
- (g) **IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine** (“IFRIC 20”) applies to all types of natural resources that are extracted using the surface mining activity process. IFRIC 20 permits capitalization of stripping costs if all of the three criteria are met: probability of economic benefit, identifiability of ore body and measurability of stripping costs. IFRIC 20 provides a more detailed cost allocation guidance based on a relevant production measure that allows allocation between inventory produced and the stripping activity asset. IFRIC 20 may represent a change in accounting practice for some Canadian mining entities. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

The company has not early adopted these standards, amendments and interpretations. However, management is currently assessing the impact of their application in the consolidated financial statements of the company.



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**4. ASSET ACQUISITION**

- (a) On July 18, 2011, the company completed its acquisition of 1830953 Ontario Inc. ("Numco"), a copper cobalt exploration company with rights and obligations to earn into an exploration project located in the Kolwezi district ("Kolwezi Project") in the Democratic Republic of Congo ("DRC"). In consideration for the acquisition of Numco, the company issued 4,674,200 common shares valued at \$0.10 per share and 375,000 common share purchase warrants valued at \$0.02 per share. The warrants are exercisable at CAD \$0.25 per share until May 1, 2012.

The value of the shares and warrants issued, and net assets and liabilities assumed, totalling \$474,920, has been attributed to the underlying Kolwezi Project exploration license held by Numco (the "exploration license"). The value attributed to the exploration license was expensed as exploration costs.

- (b) On July 18, 2011, through the acquisition described in note 4(a), the company acquired a 17% interest in the exploration license. A further 13% interest was earned through the post acquisition expenditure of CAD \$515,000 to bring its ownership in the exploration license to 30% as of December 31, 2011. The company has a right to increase its ownership in the exploration license to 60% through the expenditure of a further CAD \$4 million prior to September 2013. Once the company reaches 60% ownership, either party has an option to force the acquisition of the remaining 40% ownership of the exploration license. The company has not assigned a value to these options as there can be no certainty that the initial 60% ownership will be achieved.

**5. ACCOUNTS RECEIVABLE**

	<b>March 31</b>	December 31
	<b>2012</b>	2011
Accrued interest receivable - cashable GIC's	\$ <b>35,670</b>	\$ 26,585
HST recoverable	<b>1,883</b>	6,041
	<b>\$ 37,553</b>	<b>\$ 32,626</b>

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**6. ADVANCES TO DRC OPERATIONS**

As at March 31, 2012, the company had made unexpended mineral advances to its DRC operations totalling \$171,371 (December 31, 2011 - \$249,489). These advances were primarily for future exploration expenditures and new exploration licenses, two of which were acquired during the quarter for USD \$200,000. Further advances during the quarter funded the acquisition of a further exploration license after period-end (*see note 17*). All the respective exploration licenses acquired in early 2012 are still in the process of being formally registered with the government authorities in the DRC.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>March 31</b>	December 31
	<b>2012</b>	2011
<b>Balances made up of:</b>		
Trade accounts payable	\$ 32,824	\$ 39,817
Accrued liabilities	<b>60,000</b>	55,000
	<b>\$ 92,824</b>	<b>\$ 94,817</b>

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8. **SHARE CAPITAL**

*Authorized:* unlimited number of common voting shares

	<b>Shares</b>	<b>\$</b>
<b><i>Issued and outstanding:</i></b>		
<b>Balance - May 31, 2010</b>	<b>1</b>	<b>\$ 1</b>
Private placements (Note 8(a))	19,390,000	799,000
Portion allocated to warrants (Note 9(b))	-	(16,000)
Acquisition of Stephens Lake project (Note 8(b))	2,499,999	29,999
<b>Balance - December 31, 2010</b>	<b>21,890,000</b>	<b>813,000</b>
Private placements (Note 8(c))	10,635,000	1,663,500
Acquisition of 1830953 Ontario Inc. (Note 4(a))	4,674,200	467,420
<b>Balance - December 31, 2011</b>	<b>37,199,200</b>	<b>2,943,920</b>
Issued in period	-	-
<b>Balance - March 31, 2012</b>	<b>\$ 37,199,200</b>	<b>\$ 2,943,920</b>

- (a) The company completed a share split on December 17, 2010 which resulted in the issuance of two common shares for every previously issued pre-split share. During the period ended December 31, 2010, the following placements occurred (all references to common shares represent the post-share split shares of the company):
- (i) The company issued 8,000,000 units at a price of \$0.01 per unit. The units were each comprised of one common share of the company and one warrant to purchase a common share of the company, exercisable at \$0.05 until January 15, 2015.
  - (ii) The company issued 6,000,000 common shares at a price of \$0.03 per share.
  - (iii) The company issued 5,390,000 common shares at a price of \$0.10 per share.
  - (iv) The company issued 2,500,000 common shares at a value of \$30,000 to acquire the exploration license for Stephens Lake (*see also note 12(b)*).
- (b) In 2011, the company issued further common shares as follows:
- (i) In January, 2011, the company closed a non-brokered private placement financing of 6,635,000 common shares at \$0.10 per share for total cash consideration of \$663,500.
  - (ii) As part of the acquisition of the shares of 1830953 Ontario Inc. in July, 2011 (*see note 4(a)*), the company issued a further 4,674,200 shares valued at \$467,420 (using \$0.10 per share from the last share subscription noted above).
  - (iii) In October, 2011, the company closed a non-brokered private placement financing of 4,000,000 common shares at \$0.25 per share for total cash consideration of \$1,000,000.
- (c) The company has not issued any common shares to date during 2012.

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**9. WARRANTS**

	<u>Warrants</u>	<u>Exercise price</u>
<b>Balance - May 31, 2010</b>		
Issued in July, 2010	<b>8,000,000</b>	\$ 0.05
Issued in July, 2011	<b>375,000</b>	0.25
<b>Balance - December 31, 2011 and March 31, 2012</b>	<b>8,375,000</b>	\$ 0.06

- (a) Each warrant entitles the holder to purchase one common share. The warrants issued in July, 2010 expire by January 15, 2015, while the warrants issued in July, 2011 expire by May 1, 2012.
- (b) The fair value of the warrants issued in July, 2010 has been calculated under the Black-Scholes option-pricing method. Using the assumptions of (1) risk free interest rate of 3.5% (2) expected volatility of 67%, (3) expected life of 4.5 years, and (4) dividend yield of 0.0%, the fair value attributed to each warrant was \$0.02, or \$16,000 in aggregate.
- (c) The fair value of the warrants issued in July, 2011 (as part of the acquisition of 1830953 Ontario Inc.) has been calculated under the Black-Scholes option-pricing method. Using the assumptions of (1) risk free interest rate of 1.3% (2) expected volatility of 83%, (3) expected life of 0.77 years, and (4) dividend yield of 0.0%, the fair value attributed to each warrant was \$0.02, or \$7,500 in aggregate.
- (d) The cumulative value attributable to warrants as at December 31, 2011 was \$23,500,
- (e) To date, no warrants have expired, been exercised or cancelled.

**10. STOCK OPTIONS AND SHARE BASED PAYMENTS**

The company's shareholders have approved a stock option plan, the purposes of which are to encourage common share ownership in the company for directors, officers, consultants and employees, to provide additional incentive for superior performance by such individuals and to enable the company to attract and retain valued directors, officers and employees.

On July 27, 2011, the Board of Directors approved the grant of 1,200,000 options exercisable at \$0.15 per option, expiring by July 27, 2011. 900,000 of the options vest immediately, with the remainder of 300,000 vesting as follows: 1/3 immediately, 1/3 after one year and 1/3 after two years. As at December 31, 2011, no options have been exercised and 1,000,000 are exercisable. The company recognized an expense for share based payments for the year ended December 31, 2011, using graduated vesting, of \$119,167 for those options that have vested.

During the quarter ended March 31, 2012, no new options were granted. No existing options were exercised, cancelled, expired or vested. Accordingly, no share-based compensation was recognized during the quarter.

The stock option continuity for the period is as follows:

	<u>Options</u>	<u>Exercise price</u>
<b>Balance - January 1, 2011</b>	-	\$ -
Granted in year	<b>1,200,000</b>	0.15
Exercised in year	-	-
Cancelled in year	-	-
<b>Balance - December 31, 2011 and March 31, 2012</b>	<b>1,200,000</b>	\$ -

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**10. STOCK OPTIONS AND SHARE BASED PAYMENTS, CONTINUED**

The fair value of the options has been calculated with the Black-Scholes option-pricing model. Using the assumptions of: (1) risk free interest rate of 1.3% (2) expected volatility of 132%, (3) expected life of 2.59 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was \$0.11.

**11. LOSS PER SHARE**

The weighted average number of shares outstanding for the quarter ended March 31, 2012 was 37,199,200 (March 31, 2011 - 27,191,000). Diluted loss per share is the same as basic loss per share as all options and warrants are anti-dilutive.

**12. EXPLORATION LICENSES**

As at March 31, 2012, the company has an interest in two exploration licenses, the details of which are as follows:

**(a) Kolwezi Project, Democratic Republic of Congo:**

As detailed in note 4, the company has acquired an interest in a copper-cobalt exploration license in the DRC. The basic terms of the exploration license are as follows:

Exploration license:	PR 9090
Permitted exploration:	Copper, cobalt and gold
Permit holder:	La Miniere du Congo SPRL
Effective date:	November 10, 2007
Initial term:	5 years (ending November 9, 2012)
Renewal:	Exploration licenses may be renewed twice for 5 additional years provided the holder of the exploration license relinquishes, on each such renewal, 50% of the perimeter
Area:	95 carres (approximately 80 km sq)
Location:	Less than 10 km east of Kolwezi, Katanga Province, DRC

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**12. EXPLORATION LICENSES, CONTINUED**

**(b) Stephens Lake Project, Province of Manitoba**

The Stephens Lake property is located in northern Manitoba, about 750 km north of Winnipeg, 175 km east - northeast of Thompson and centred about 20 km northwest of Gillam. The Stephens Lake mineral exploration license covers an area of approximately 12,000 hectares and is currently valid until February 5, 2013. Stephens Lake is an early stage base metals exploration project. Exploration carried out by previous companies is limited to airborne geophysical surveys and one field program where several lines of soil sampling were performed.

For the anniversary period ended February 5, 2012, the company was obligated to a annual work requirement of CAD \$3.00 per hectare to be completed by the anniversary date. In lieu of actual work being performed, the company made a cash payment of CAD \$37,023 (March 31, 2011 - \$18,512) to the Province of Manitoba.

The rate increases to CAD \$4.00 per hectare for each respective anniversary dates from 2013 to 2015.

**(c) Mineral license expenditures**

	<b>March 31</b>	<b>March 31</b>
	<b>2012</b>	<b>2011</b>
	<hr/>	<hr/>
<b>Kolwezi project</b>		
Acquisition	\$ 203,512	\$ -
Services	51,693	-
Fieldwork	6,217	-
Administration	4,604	-
Consulting	48,303	-
Travel and accommodation	59,634	-
General	2,891	-
	<hr/>	<hr/>
	376,854	-
<b>Stephens Lake project</b>		
Exploration	37,023	18,512
	<hr/>	<hr/>
	\$ 413,877	\$ 18,512
	<hr/>	<hr/>

**13. FINANCIAL INSTRUMENTS**

The company's activities expose it to a variety of financial risks: credit risk, liquidity risk, mineral property risk and market risk (including interest rate, currency and fair value). Risk management is carried out by the company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

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13. **FINANCIAL INSTRUMENTS, CONTINUED**

(a) **Credit risk**

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The company's credit risk is primarily attributable to cash, term deposits and accounts receivable. Financial instruments included in accounts receivable consist of HST and accrued interest on the company's cashable term deposits.

As at March 31, 2011, cash and term deposits of \$915,326 (December 31, 2011 - \$1,332,274) are held with reputable financial institutions from which management believes the risk of loss to be minimal. As the majority of the accounts receivable consists of refundable HST ITC's, management believes that the credit risk concentration with respect to accounts receivable is negligible.

(b) **Liquidity risk**

Liquidity risk refers to the risk that the company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost (*see note 1(c)*). The company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2012, the company has working capital of \$1,033,972 (December 31, 2011 - \$1,526,050). All of the company's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms.

(c) **Mineral property risk**

The company's operations in the DRC are exposed to various levels of political risk and uncertainties, including political and economic instability, government regulations relating to exploration and mining, military repression and civil disorder, all or any of which may have a material adverse impact on the company's activities or may result in impairment in or loss of part or all of the company's assets.

(d) **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As at March 31, 2012, the company has certain cash balances that earn no interest, \$588,406 of cashable GIC's that earn interest of 1.3% and no interest-bearing debt. Accordingly, its interest rate risk is considered nominal.

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**13. FINANCIAL INSTRUMENTS, CONTINUED**

**(e) Sensitivity analysis**

The company operates in Canada and has a presentation and functional currency of CAD dollars. The company also operates in the DRC where the functional currency is the US dollar. It is therefore subject to foreign exchange fluctuations against the CAD dollar on the USD denominated cash and accounts payable and accrued liabilities in the DRC. The company funds exploration and administrative expenses in the DRC on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net comprehensive income by approximately \$17,000.

**(f) Fair value hierarchy**

All of the company's existing financial instruments are classified as either loans and receivables or other financial liabilities, both of which are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The carrying amount of loans and receivables and other financial liabilities approximate their fair values due to their short term nature

**14. CAPITAL MANAGEMENT**

The company's objective when managing capital is to maintain adequate levels of funding to support development of its exploration projects, to expand regional exploration activities within the DRC and to maintain corporate and administrative functions. The company considers its capital to be its shareholders' equity. The company manages its capital structure in an effort to provide sufficient funding for its development projects. Funds are primarily secured through equity capital raised by way of private placements.

There can be no assurances that the company will be able to continue raising equity capital in this manner. The company's 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. 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 have been no changes in the company's approach to capital management since the year-end. The company is not subject to externally imposed capital requirements.



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**15. SEGMENTED INFORMATION**

The company conducts its business in a single operating segment consisting of the exploration activities in the DRC and the Stephens Lake Project. Most of the expenditures for the quarter ended March 31, 2012 related to the DRC operations with the exception of \$37,023 as described in note 12(b). There are no assets recognized for the Stephens Lake Project.

**16. RELATED PARTY TRANSACTION**

During the quarter ended March 31, 2012, the company paid total fees of \$53,500 (March 31, 2011 - \$10,500) to a company controlled by a shareholder and director for management and administrative services, including compensation for the CFO (2012 only), corporate secretary, office rent and regular administrative functions (*see also note 18(c)*).

**17. SUBSEQUENT EVENTS**

**(a) License acquisitions - DRC**

In April, 2012, the company acquired an additional exploration license in the DRC for total cash consideration of USD \$150,000. All of the respective exploration licenses acquired in early 2012 are still in the process of being formally registered with the government authorities in the DRC.

**(b) Investor relations contract**

In April, 2012, the company entered into an agreement with CHF Investor Relations (“CHF”) for the provision of investor relations and market-making services. The agreement with CHF is for a period of twelve months and may be renewed quarterly thereafter. CHF will receive a monthly fee of \$4,600. In addition, CHF has been granted 370,000 stock options, of which 185,000 may be exercised at \$0.25 per common share and the remaining 185,000 at \$0.35 per common share. The options expire on April 8, 2017 and will vest quarterly over a period of one year from the date of grant.

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**18. COMMITMENTS**

- (a) The company is obligated to pay annual land taxes with respect to its exploration license in the DRC of USD \$0.04 per hectare (approximately USD \$2,500)
- (b) The company is committed to minimum annual work requirement on its Stephens Lake property as described in note 12(b).
- (c) The company's management contract is on a monthly basis with a six-month notice period. Starting in January, 2012, the monthly fee approved by the Board of Directors was increased to \$17,500 (*see also note 16*).
- (d) The president and COO of the company, who is also a director, has a consulting agreement that pays USD \$10,000 per month with an initial two-year term that expires in July, 2013.