



(An Exploration Stage Company)

# Audited Consolidated Financial Statements

Fiscal years ended March 31, 2011 and 2010

<b>Table of Contents</b>	<b>Page</b>
<b>Independent Auditors' Report</b>	<b>1</b>
<b>Consolidated Balance Sheets</b>	<b>2</b>
<b>Consolidated Statements of Operations and Comprehensive Loss</b>	<b>3</b>
<b>Consolidated Statements of Cash Flows</b>	<b>4</b>
<b>Consolidated Statements of Changes in Shareholders' Equity</b>	<b>6</b>
<b>Notes to Consolidated Financial Statements</b>	<b>7-34</b>

# Schwartz Levitsky Feldman llp

CHARTERED ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS  
TORONTO • MONTREAL

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Colt Resources Inc.

We have audited the accompanying consolidated financial statements of Colt Resources Inc. which comprise the consolidated balance sheets as at March 31, 2011 and 2010 and the consolidated statements of operations and comprehensive loss, cash flows, changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Colt Resources Inc. as at March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

### Emphasis of Matter

Without qualifying our opinion, we draw your attention to Note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**"SCHWARTZ LEVITSKY FELDMAN LLP"**

Toronto, Ontario, Canada  
June 27, 2011

Chartered Accountants  
Licensed Public Accountants

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**An Exploration Stage Company**  
**Consolidated Financial Statements for the years ended March 31, 2011 and 2010**

**Consolidated Balance Sheets**

As at	March 31, 2011	March 31, 2010
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,236,079	\$ 484,445
Sales taxes receivable	146,895	21,429
Prepaid expenses	127,149	40,098
	1,510,123	545,972
<b>Equipment (note 5)</b>	190,003	6,144
<b>Performance Bonds</b>	124,038	123,300
<b>Mineral Property Interests (note 6)</b>	4,765,569	2,867,390
	\$ 6,589,733	\$ 3,542,806
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 797,594	\$ 414,622
Due to related parties (note 9)	83,012	49,670
Convertible debentures (note 7)	-	271,038
	880,606	735,330
<b>Shareholders' Equity</b>		
<b>Capital Stock (note 8)</b>	12,263,860	5,596,992
<b>Contributed Surplus (note 8)</b>	2,631,351	824,596
<b>Equity Portion of Convertible Debentures (note 7)</b>	-	128,458
<b>Deficit</b>	(9,186,084)	(3,742,570)
	5,709,127	2,807,476
	\$ 6,589,733	\$ 3,542,806

Going Concern (note 1)

Related Party Transactions (note 9)

Commitments and Subsequent Events (notes 14 and 15)

Approved on behalf of the Board:

"David Johnson"

..... Director

David Johnson

"James Ladner"

..... Director

James Ladner



**An Exploration Stage Company**

**Consolidated Financial Statements for the years ended March 31, 2011 and 2010**

**Consolidated Statements of Operations and Comprehensive Loss**

For the fiscal years ended March 31	2011	2010
<b>Revenue</b>	\$ -	\$ -
<b>Expenses</b>		
Directors' compensation (note 8e)	1,265,942	246,963
Interest on convertible debentures (note 7)	7,919	111,401
Consulting	447,218	390,064
Salaries	291,095	70,313
Investor relations and Marketing (note 11)	1,800,218	106,197
Travel Expenses	250,795	62,301
Accounting and audit	97,625	39,560
Rent	41,090	40,772
Office	128,250	45,674
Property investigation	67,789	3,450
Listing and transfer agent fees	205,666	21,295
Filing fees	32,076	4,215
Bank charges	7,016	3,766
Insurance	14,745	3,384
Legal	245,865	81,890
Interest expense	11	8,264
Amortization expense	16,210	940
<b>Loss Before Other Items and Income Tax</b>	<b>(4,919,530)</b>	<b>(1,240,449)</b>
<b>Other Items</b>		
Interest Income	-	622
Loss on disposal of equipment	-	(9,652)
Foreign exchange Loss	(74,811)	(8,425)
	(74,811)	(17,455)
<b>Loss Before Income Tax</b>	<b>(4,994,341)</b>	<b>(1,257,904)</b>
<b>Income Tax</b>		
Future income tax (note 12)	-	3,340
<b>Net Loss and Comprehensive Loss for Year</b>	<b>\$ (4,994,341)</b>	<b>\$ (1,261,244)</b>
<b>Loss Per Share, basic and diluted</b>	<b>\$ (0.11)</b>	<b>\$ (0.05)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>46,205,934</b>	<b>23,717,819</b>



**An Exploration Stage Company**

**Consolidated Financial Statements for the years ended March 31, 2011 and 2010**

**Consolidated Statements of Cash Flows**

For the years ended March 31	2011	2010
<b>Operating Activities</b>		
Net loss and comprehensive loss for the year	\$ (4,994,341)	\$ (1,261,244)
Items not involving cash		
Accrued interest, accretion and financing fees on convertible debentures (note 7)	7,919	111,401
Future income tax	-	3,340
Loss on disposal of equipment	-	9,652
Amortization	16,210	940
Stock-based compensation	1,265,942	374,086
Unrealized foreign exchange (gain) loss	17,770	23,704
	(3,686,500)	(738,121)
Changes in non-cash working capital		
Sales taxes receivable	(125,466)	22,417
Prepaid expenses	(87,051)	(32,212)
Taxes receivable	-	19,271
Accounts payable and accrued liabilities	382,972	249,545
Due to related parties	33,342	(80,873)
<b>Cash Used in Operating Activities</b>	<b>(3,482,703)</b>	<b>(559,973)</b>
<b>Investing Activities</b>		
Purchase of equipment	(200,069)	(5,272)
Performance bonds acquired	-	(13,737)
Expenditures on mineral property interests	(1,898,179)	(934,841)
<b>Cash Used in Investing Activities</b>	<b>(2,098,248)</b>	<b>(953,850)</b>
<b>Financing Activities</b>		
Proceeds from shares issued, net of issuance costs	6,332,585	1,976,676
<b>Cash Provided by Financing Activities</b>	<b>6,332,585</b>	<b>1,976,676</b>
Foreign Exchange Effect on Cash	-	1,774
<b>Net Inflow of Cash during the Year</b>	<b>751,634</b>	<b>464,627</b>
<b>Cash and cash equivalents beginning of Year</b>	<b>484,445</b>	<b>19,818</b>
<b>Cash and cash equivalents end of Year</b>	<b>\$ 1,236,079</b>	<b>\$ 484,445</b>
<b>Cash and Cash Equivalents Consist of:</b>		
Cash	\$ 1,179,708	\$ 484,445
Guarantee deposits (note 4b)	56,371	-
<b>Non-Cash Operating, Investing and Financing Activities</b>		
Issuance of capital stock for settlement of liability	\$ -	\$ 62,500
Issuance of capital stock for debt conversion	303,339	128,280
Interest paid	-	8,264
Warrant modification (note 8f)	449,173	-



**An Exploration Stage Company**  
**Consolidated Financial Statements**

**Consolidated Statements of Changes in Shareholders' Equity for the years ended  
 March 31, 2011 and 2010**

	Number of Shares	Capital Stock	Equity Portion Conv. Debt	Contributed Surplus	Deficit	Shareholders' Equity
<b>Balance – March 31, 2009</b>	<b>17,799,096</b>	<b>\$3,358,545</b>	<b>\$214,097</b>	<b>\$ 434,421</b>	<b>(\$2,481,326)</b>	<b>\$1,525,737</b>
Common shares issued for cash (note 8b)	12,979,908	\$1,901,346	-	-	-	\$1,901,346
Common shares converted from convertible debentures (note 8d)	609,121	\$213,919	(\$85,639)	-	-	\$128,280
Common shares issued for settlement of liabilities (note 8c)	416,667	\$62,500	-	-	-	\$62,500
Stock-based compensation / Finder Warrants	-	-	-	\$390,175	-	\$390,175
Warrants and Options Exercised	304,544	\$60,682	-	-	-	\$60,682
Net loss and comprehensive loss for the year	-	-	-	-	(\$1,261,244)	(\$1,261,244)
<b>Balance – March 31, 2010</b>	<b>32,109,336</b>	<b>\$5,596,992</b>	<b>\$128,458</b>	<b>\$824,596</b>	<b>(\$3,742,570)</b>	<b>\$ 2,807,476</b>
Common shares issued for cash (note 8b)	20,839,997	\$5,933,610	-	-	-	\$5,933,610
Common shares issued for settlement of convertible debentures (note 8d)	883,964	\$431,797	(\$128,458)	-	-	\$303,339
Stock-based compensation (note 8e)	-	-	-	\$1,265,942	-	\$1,265,942
Warrants and Options Exercised	1,365,122	\$393,101	-	-	-	\$393,101
Warrant modification (note 8f)	-	-	-	449,173	(449,173)	-
Finders Warrants	-	(\$91,640)	-	\$91,640	-	-
Net loss and comprehensive loss for the year	-	-	-	-	(\$4,994,341)	(\$4,994,341)
<b>Balance – March 31, 2011</b>	<b>55,198,419</b>	<b>\$12,263,860</b>	<b>-</b>	<b>2,631,351</b>	<b>(9,186,084)</b>	<b>\$5,709,127</b>

See notes to Consolidated Financial Statements



**An Exploration Stage Company  
Consolidated Financial Statements**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

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

Colt Resources Inc. (the “Company”) is a publicly traded junior mining exploration company engaged in the acquisition, exploration and development of mineral property interests in Portugal and Canada.

The Company’s main focus is the continued exploration and development of its gold and tungsten properties in Portugal.

The Company is a reporting issuer in the provinces of Alberta, British Columbia, Ontario and Quebec. On March 1, 2007, the Company’s common shares were approved for listing and commenced trading on the Canadian Trading and Quotation System (“CNQ”) now known as the Canadian National Stock Exchange (“CNSX”) under the ticker symbol “GTP”. On September 26, 2008, the CNSX adopted a three character format and the Company’s ticker symbol was changed to “GTP”. During fiscal 2009, the Company listed on the Open Market Segment of the Frankfurt Stock Exchange under the ticker symbol “P01”. On August 31, 2010 the company listed its shares on the OTCQX (Ticker: COLTF). On February 8, 2011 the Company listed its shares on the TSX Venture Exchange (Ticker: GTP) and delisted from the CSNX.

The Company operates from its headquarters in Montreal, Canada and also through two wholly-owned subsidiaries: Eurocolt Resources Unipessoal Lda. (“Eurocolt”) and Aurmont Resources (“Aurmont”). These subsidiaries represent the interest of Colt Resources Inc. in Portugal.

The Company is in the exploration stage with regards to its mineral assets. .

The investment in and expenditures on mineral property interests comprise a significant portion of the Company’s assets. Realization of the Company’s investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or ultimate disposal.

Mineral exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The Company’s ability to continue as a going concern is further dependent on being able to obtain the necessary financing to satisfy its liabilities as they become due. Management believes that the Company has the ability to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year as they fall due, and to fund cash payments for planned exploration programs. There can be no assurances that management will be successful in securing adequate financing.

The Company reported net losses for the fiscal years ended March 31, 2011 and 2010. These recurring losses and the need for continued financing to further successful exploration raise concern about the risks associated with the Company’s business and as a going concern.

These consolidated financial statements do not include any adjustments to the classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Company have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The functional and reporting currency of the Company is the Canadian dollar.

The significant accounting policies are summarized as follows:

**A. Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned foreign integrated subsidiaries, Eurocolt and Aurmout. All intercompany balances and transactions have been eliminated.

**B. Foreign currency translation**

The Company's foreign wholly-owned subsidiaries are classified as integrated foreign operations, which require the temporal method of translation for foreign currency translation purposes. Monetary assets and liabilities of the Company's integrated foreign operations are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at fair value, in which case they are translated at the exchange rates in effect on the balance sheet date. Revenues and expenses, except amortization, which is translated at historical rates, are translated at the average exchange rates for the period. All translation gains or losses are included in the determination of net income or loss for the year.

**C. Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and guarantee deposits with maturities of less than 91 days at the date of acquisition. Guarantee deposits included in cash and cash equivalents are highly liquid, can be converted to a known amount of cash at any time and are held at major financial institutions.

**D. Equipment**

Equipment is recorded at cost and is amortized over their estimated useful lives at the following annual rates and methods:

Computer and office equipment	30% declining balance
Automobiles	30% declining balance
Mining equipment	20% declining balance
Leasehold improvements	straight-line over the term of the lease

**E. Mineral property interests**

The Company capitalizes all costs attributable to its investments in mineral property interests on a property-by-property basis. Such costs include mineral property interest acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, sold, abandoned or the Company's mineral rights are allowed to lapse.

All capitalized costs are reviewed quarterly, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment.



**An Exploration Stage Company  
Consolidated Financial Statements**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When the carrying value of a mineral property interest exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or expenditure commitments) or when, in the Company's assessment, it will be unable to sell the mineral property interest for an amount greater than the deferred costs, the mineral property interest is written down by the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such, options are exercisable entirely at the discretion of the optionee; the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as mineral property interest costs or recoveries when the payments are made or received.

Capitalized costs will be depleted over the estimated useful lives of the properties upon commencement of commercial production or written-off if the properties are abandoned or the applicable mineral rights are allowed to lapse.

**F. Future income taxes**

The Company follows the asset and liability method of accounting for future income taxes. Under the asset and liability method, future income tax assets and liabilities are computed based on differences between the financial statement carrying values of assets and liabilities and their corresponding tax values, using substantially enacted income tax rates expected to apply to taxable income in the years in which the carrying amount of the asset or liability is expected to be realized or settled. Future income tax assets can also result by applying unused loss carry-forwards and other deductions. The effect on future tax assets and liabilities of a change in tax rates and valuation allowances is recognized in operations in the period in which the change is enacted or substantially enacted. The amount of future income tax asset is limited to the amount of the benefit that is more likely not to be realized and a valuation allowance is provided for any excess over this amount.

**G. Stock-based compensation plans**

The Company accounts for stock-based compensation using the relative fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or mineral properties, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****H. Flow-through shares**

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. The proceeds from shares issued under flow-through share financing agreements are credited to capital stock and the tax benefit of the exploration expenditures incurred under these agreements are renounced to the purchaser of the shares. The tax impact to the Company of the renouncement is recorded on the date that the renunciation is filed with the taxation authorities, through a decrease in capital stock and the recognition of a future tax liability.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not previously recognized, due to the recording of a valuation allowance, are recognized as a recovery of future income taxes in the consolidated statement of operations.

**I. Loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings per share. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

**J. Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include impairment of mineral property interests, environmental obligations, accrued liabilities, assumptions used for the allocation of debt and equity portions of convertible debentures, rate of accretion for deferred charge of conversion feature, determination of useful lives and impairment of equipment, assumptions for stock-based compensation expense and determination of the valuation allowance for future income tax assets. While Management believes the estimates to be reasonable; actual results could differ from those estimates and could impact future results of operations and cash flows.

**K. Impairment**

The company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of the assets to its estimated discounted future cash flows expected to be generated by the assets. Measurement of an impairment loss is based on the estimated fair value of the asset compared to its carrying value.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

L. Financial instruments

Financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at their fair value except loans and receivables, held-to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on its initial classification.

Held-for-trading financial instruments are measured at fair value and changes in fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with changes in fair value included in other comprehensive income until the assets are removed from the balance sheet.

The Company has elected to apply the following classifications to each of its significant categories of financial instruments:

<u>Asset/Liability</u>	<u>Category</u>	<u>Measurement</u>
Cash and cash equivalents	Held for trading	Fair value
Performance Bonds	Held to maturity	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Due to Related Parties	Other liabilities	Amortized cost

M. Comprehensive Income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. Gains and losses that would otherwise be recorded as part of net income (loss) are presented in other "comprehensive loss" until realized.

N. Accounting for equity units

Proceeds received on the issuance of equity units, consisting of common shares and warrants, are allocated entirely to common shares using the residual accounting method

O. Convertible Debentures

Proceeds from convertible debentures are allocated between the debt and equity component by first allocating the proceeds to the equity component based on its fair value as determined using the Black-Scholes option pricing model with the residual value being allocated to the debt component. The debt component accretes over the term of the debt using the effective interest rate method such that upon maturity the debt balance recorded will equal the maturity value of the remaining outstanding debt. The related financing costs are recorded against the debt and are amortized over the term to maturity. The increase in the debt balance and amortization of related financing costs are reflected as interest, accretion and financing fees on convertible debentures in the consolidated statement of operations. The value of the equity component remains unchanged in future periods except upon conversion when the related debt and equity components are reclassified to capital stock.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****P. Share issuance costs**

Costs incurred in connection with the issuance of capital stock are included as a reduction of the proceeds received

**3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING ANNOUNCEMENTS****A. Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the Emerging Issues Committee (the "EIC") of the Canadian Institute of Chartered Accountants ("CICA") issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after the date of issuance of EIC-173. The adoption of this standard did not result in any significant changes to its financials assets and financial liabilities in the current period or on the prior period consolidated financial statements.

**B. Mining Exploration Costs**

In March 2009, the EIC issued EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties. It also provides guidance for development and exploration stage entities that cannot estimate future cash flows from its properties in assessing whether impairment in such properties is required. EIC-174 also provides additional discussion on recognition of long-lived assets. EIC-174 is to be applied in interim and annual financial statements for periods ending on or after the date of issuance of EIC-174. The adoption of this section did not have a significant impact on the Company's consolidated financial statements for the current and prior period and has been disclosed as appropriate.

**C. Business Combinations**

In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Corporation beginning on or after January 1, 2011, which for this Company is January 1, 2011. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with International Financial Reporting Standards (IFRS). The Company does not anticipate that the adoption of this standard will impact its financial results and will adopt this standard concurrently with IFRS.

**3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING ANNOUNCEMENTS****D. Consolidated Financial Statements and Non-Controlling Interests**

CICA HB Section 1601, Consolidated Financial Statements and HB Section 1602, Non-controlling Interests replace CICA HB Section 1600, Consolidated Financial Statements. HB Section 1601 establishes standards for the preparation of consolidated financial statements. HB Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. HB Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective for interim and annual financial statements beginning on or after January 1, 2011, which for this Company is January 1, 2011. The Company believes that the adoption of this standard will not have a material impact on its consolidated financial statements and expects to adopt this standard concurrently with IFRS.

**E. International Financial Reporting Standards ("IFRS")**

In February 2008, the Accounting Standards Board of Canada (AcSB) confirmed that Canadian publicly accountable enterprises would be required to apply International Financial Reporting Standards (IFRS), replacing Canadian GAAP for the interim and annual financial reporting of the fiscal years commencing on or after January 1, 2011. As such, the consolidated financial statements for the year ended March 31, 2011 are the last set of Canadian GAAP consolidated financial statements to be prepared by the Company. As of the first quarter of fiscal year 2012, the Company's consolidated financial statements will be prepared in accordance with IFRS and will include the comparative figures of 2010 as well as an opening consolidated balance sheet dated April 1, 2010 (the transition date) prepared in accordance with IFRS.

In 2010, the Company's management began assessing the impact of the adoption of IFRS. IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retroactively at the Transition Date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. Accordingly, the Company will also provide a reconciliation of previously disclosed comparative period financial statements prepared in accordance with Canadian GAAP to IFRS. The Company's change over plans to IFRS are continuing.

**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company adopted the amendments to CICA Section 3862 for these annual financial statements. The amendments require the use of a fair value hierarchy in order to classify the fair value disclosures related to the Company's financial assets and financial liabilities that are recognized in the balance sheet at fair value.

The fair value hierarchy has the following levels:

- Level 1: Quoted market prices in active markets for identical assets and liabilities
- Level 2: Inputs other than quoted market prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Unobservable inputs such as inputs for the assets or liability that are not based on observable market data.

The fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

**An Exploration Stage Company  
Consolidated Financial Statements**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)**

(a) Fair value

The carrying values of the Company's cash and cash equivalents, performance bonds, accounts payable and accrued liabilities and due to related parties approximate their fair values because of the relative short-term maturities of these financial instruments. Cash equivalents and performance bonds are reflected on the balance sheet at amortized costs using level 2 hierarchy.

The Company's convertible debenture is segregated into its debt and equity components at the date of issue, in accordance with the substance of the contractual agreements. The value of the conversion option makes up the equity component of the instrument and was recorded upon initial recognition using the Black-Scholes option pricing model. The debt component of the instrument was recorded at fair value at initial recognition using the residual fair value method and is carried at amortized cost. (b) Credit risk

The Company is exposed to credit risk with respect to cash and cash equivalents performance bonds. The risk arises from the non-performance of counterparties of contractual financial obligations. The Company manages credit risk by maintaining cash, and performance bonds with reputable financial institutions.

As at March 31, 2011 and March 31, 2010, the Company's maximum exposure to credit risk is as follows:

	March 31, 2011	March 31, 2010
Cash held in bank accounts	\$ 1,236,079	484,445
Performance bonds (held in Portugal)	124,038	123,300
	<b>\$ 1,360,117</b>	<b>153,418</b>

The Company is exposed to normal commercial risk as it holds bank accounts in Canada and Portugal. .

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows used in operations and exploration activities, anticipated from investing and financing activities, and taking into account the Company's holdings of cash and cash equivalents.

As at March 31, 2011, the Company has cash and cash equivalents of \$1,236,079 (\$484,445 as at March 31, 2010) and working capital of \$629,517 (as compared to a working capital deficiency of \$189,358 as at March 31, 2010). Accounts payable and accrued liabilities have contractual maturities of 30 days or less and are subject to normal trade terms, amounts due to related parties are due on demand.

**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)**

The Company has sufficient funding to meet its existing obligations as well as administrative overhead costs and planned exploration activities on its mineral property interests in fiscal 2012 but it will require additional funding going forward. While the Company has been successful in raising debt and equity funds in the past, there exists uncertainty whether it will be able to raise sufficient funds beyond fiscal 2012.

(e) Market risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: interest rate risk, foreign currency risk and other price risk.

i) Interest rate risk

The Company's cash generally consist of cash and cash equivalents held with reputable financial institutions. Future cash flows from interest income on cash will be affected by interest rate fluctuations. . At March 31, 2011 and 2010 the Company has determined that fluctuations in interest rates will not have a material impact on estimated fair value at year end

(ii) Foreign currency risk

The Company operates in Canada and Portugal. The Company is exposed to foreign currency risk to the extent that financial instruments are denominated in European Euro.

As at March 31, 2011 the Company's exposure to foreign currency risk, based on balance sheet values, were to the European Euro. The Company held financial instruments denominated in European Euros consisting of €90,000 in performance bonds and €404,806 in cash for a total of €494,806.

As at March 31, 2011 the Company used a foreign exchange rate of CDN\$1.378 for €1.00.

The Company has not entered into any derivative instruments to mitigate the risk. Our sensitivity analysis assumes all other variables remain constant and are based on above net exposures. A 10% appreciation or depreciation of the Euro dollar vis-à-vis the Canadian dollar would result in approximately \$70,000 increase or decrease respectively, in net loss and shareholder equity.

(iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.



**An Exploration Stage Company  
Consolidated Financial Statements**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**5. EQUIPMENT**

	March 31, 2011			March 31 2010	
	Cost	Accumulated Amortization	Net	Net	
Computer and office equipment	\$ 57,490	\$ 7,029	\$ 50,461	\$ 4,354	
Leasehold Improvements	\$ 88,970	\$ -	\$ 88,970	-	
Mining equipment	\$ 5,823	\$ 2,340	\$ 3,483	\$ 1,790	
Automobiles	\$ 55,399	\$ 8,310	\$ 47,089	\$ 0	
	\$ 207,682	\$ 17,679	\$ 190,003	\$ 6,144	

**6. MINERAL PROPERTY INTERESTS**

PORTUGUESE MINING INTERESTS

A. Penedono Property (GOLD)

The Company holds a 100% interest on the Penedono Property in Portugal, which comprises three separate blocks covering 102.471 km<sup>2</sup>, located in north central Portugal, four hours driving time from Lisbon. Roads provide ready access throughout the concession, infrastructure and local resources are excellent and the local population is supportive of resource development.

On March 20, 2007, the Company entered into a binding letter of intent, and a Definitive Agreement was executed on May 7, 2007, with Rio Narcea Gold Mines S.A. Sucursal Em Portugal ("Rio Narcea"), whereby Rio Narcea agreed to assign all of the rights, benefits and obligations of Rio Narcea covered under the exploration contract dated October 29, 2004 between the Government of Portugal and Rio Narcea in respect to the Penedono Gold Property (the "Penedono Exploration License").

Upon the Government of Portugal approving the Company's requested amendments to the terms and conditions of the Penedono Exploration License, and upon approving its assignment to the Company, Rio Narcea and the Company closed the transaction contemplated in the Definitive Agreement. As consideration for the Assignment, the Company has issued to Rio Narcea, as fully paid and non-assessable, 200,000 restricted common shares of the Company on the closing date of the transaction. Of these 200,000 restricted common shares, 50,000 common shares became tradable effective on each December 29, 2007, March 29, 2008, June 29, 2008 and September 29, 2008.

Furthermore, from commercial production and under certain terms and conditions, the Company is obligated to pay to Rio Narcea a 1% NSR royalty to a maximum amount of US \$1,000,000.

In respect to this transaction, as a finder's fee, the Company has issued to a director and officer of the Company, who at the time was a Consultant of the Company, 20,000 fully paid and non-assessable common shares of the Company.

**6. MINERAL PROPERTY INTERESTS (Continued)*****Contractual Obligations***

- Under certain terms and conditions, the Company is also obligated to pay Rio Narcea Portugal (the seller of the concession) 1% Net Smelter Returns Royalty for a maximum amount of US \$1,000,000
- The Company is obligated to pay to the Portuguese Government Exploration License fees, as follows:
  - €5,125 on or before October 29, 2007 (Paid)
  - €2,562.50 on or before October 29, 2008 (Paid)
  - €5,125 on or before October 29, 2009 (Paid)
- Should the property be placed into commercial production, the Company is obligated to pay 4% Net Smelter Returns Royalty to the Portuguese Government

**B. Armamar-Meda Property (TUNGSTEN)**

The Company holds a 100% interest on the Armamar-Meda property in Portugal, which covers 436 km<sup>2</sup> located in north central Portugal. Paved and gravel roads provide good access throughout the concession. Infrastructure and local resources are excellent.

On December 10, 2007, the Company entered into a prospecting and exploration license agreement with the Government of Portugal whereby the Company has been granted the exclusive right to prospect and explore for base and precious metals on the property, which is partially contiguous to the Company's Penedono Exploration Concession (the "Armamar-Meda Concession and Exploration License").

On January 22, 2008, the Company lodged a bank guarantee in favor of the Government of Portugal, as a performance bond, for the amount of €20,000 in respect to the Armamar-Meda Concession and Exploration License.

***Contractual Obligations***

- The Initial Term of the Armamar Meda Exploration License is for three years (which started December 10, 2007) and can be extended twice on an annual basis. During the Initial Term, the Company is obligated to incur prospecting and exploration expenditures of not less than € 25,000 by December 10, 2008 (Incurred), € 50,000 by December 10, 2009 (Incurred) and € 75,000 by December 10, 2010 (Incurred). Upon the expiry of the Initial Term, the Company shall be required to relinquish, on an annual basis, 50% of the area covered by the Armamar Meda Exploration License.
- During the Extended Term, the Company is obligated to incur exploration expenditures on an annual basis of not less than € 100,000. During this time, the Company is obligated to pay to the Government of Portugal and annual license fee in the amount of € 35 per sq. km. of ground covered by its license.
- Upon the completion of the Initial and Extended Terms, the Company may apply for an Exploitation License, which if granted, shall have a term of 30 years and which may be extended by the approval of the Portuguese Government, for a period not to exceed 20 years.

**6. MINERAL PROPERTY INTERESTS (Continued)**

- Upon the granting of the Exploitation License, and in the event that mining activities are to take place, then the Company shall be obligated, at the Company's sole discretion, either to pay 10% of the net income derived from its mining activities or, alternatively, pay Net Smelter Returns Royalty on production at NSR rates ranging from 1% to 4% depending on the price of gold. Additionally, as soon as the Exploitation License is granted to the Company, and provided that production from the mining activities is determined to exceed 1,000,000 ounces of gold or of gold equivalent during the life of the mining activities, then the Company will be obligated to pay € 100,000 as a commercial discovery bonus to the Government of Portugal.

**C. Moimenta-Almendra Property (TUNGSTEN and GOLD)**

The Company holds a 100% interest on the Moimenta-Almendra Property in Portugal, which is an area made of 3 separate blocks totalling 566.58 km<sup>2</sup> in area, namely from West to East (attached map): Moimenta block (98.00km<sup>2</sup>), Castainço block (102.72 km<sup>2</sup>), Almendra block (365.86 km<sup>2</sup>).

On January 10, 2008, the Company entered into a prospecting and exploration license agreement with the Government of Portugal (the "Moimenta Almendra License") whereby the Company has been granted the exclusive right to prospect and explore the Moimenta Almendra property which is partially contiguous to the Penedono and Armamar-Meda Exploration concessions.

The initial term of the Moimenta Almendra License is for a period of three years ending January 10, 2011 (the "Initial Term"), which can be extended twice on an annual basis (the "Extended Term"). During the Initial Term, the Company is obligated to incur prospecting and exploration expenditures of not less than €25,000 by January 10, 2009 (incurred) €50,000 by January 10, 2010, and €75,000 by January 10, 2011. During the Extended Term, the Company is obligated to incur exploration expenditures on an annual basis of not less than €100,000. During the Initial and Extended Terms, the Company is obligated to pay to the Government of Portugal an annual fee in the amount of €25 per square kilometer of ground covered by the Moimenta Almendra License.

In respect to the Moimenta Almendra License, the Company has lodged a bank guarantee, as a performance bond, for the amount of €10,000 in favor of the Government of Portugal.

***Contractual Obligations***

- Contractual periods: initial period of three years, followed by two extensions of one year each; 50% area reduction at each extension.
- Bond (bank guarantee): € 10,000.
- The initial term of three years ending January 10, 2011 (the "Initial Term"), which can be extended twice on an annual basis (the "Extended Term").
- The Company is obligated to incur prospecting and exploration expenditures of not less than €25,000 by January 10, 2009 (incurred), €50,000 by January 10, 2010 and, €75,000 by January 10, 2011.
- During the Extended Term, the Company is obligated to incur exploration expenditures on an annual basis of not less than €100,000 and shall be required to relinquish 50% of the area covered by the license.
- Upon the completion of the Initial and Extended Term, the Company may apply for an Exploitation License, which, if granted, shall have a term of 30 years and which may

**6. MINERAL PROPERTY INTERESTS (Continued)**

- be extended by Portuguese Government approval for a period not to exceed 20 years (the "Exploitation License").
- Yearly tax for concession: €25 per km<sup>2</sup>, totalling €14,164.50 for each of the first three years (subsequently reduced upon reduction of area).

**D. Santa Margarida do Sado Property (Volcanic Massive Sulphide)**

The Company holds a 100% interest on the Santa Margarida do Sado Property in Portugal, which consists of 360.46 km square of prospective ground situated on the western extension of the Iberian Pyrite Belt, where the favourable basement geology is concealed under Tertiary cover sediments of the Lower Sado Basin. The IPB extends for more than 250 km from southern Spain through southern Portugal and is the host for numerous volcanogenic massive sulphide deposits in both countries, including several giant deposits with >100 Mt total geologic resources, such as Rio Tinto and Tharsis in Spain, and Aljustrel and Neves-Corvo in Portugal.

On November 30, 2009 the Company lodged a bank guarantee in favor of the Government of Portugal, as a performance bond, for the amount of €10,000 in respect to this Concession and Exploration License.

***Contractual Obligations***

- On September 23, 2009 the Company entered into a prospecting and exploration license agreement for a new concession with the Government of Portugal (the "Santa Margarida do Sado License") whereby the Company has been granted the exclusive right to prospect and explore the Santa Margarida do Sado Property in Portugal's Iberian Pyrite Belt consisting of 360.46 square kilometres.
- The concession was granted for a period of 4 years with a 50% reduction at the end of the 2nd and 3rd year respectively. The required minimum investment for the 1st year is 100,000 Euro, 2nd year 300,000 Euros and 3rd and 4th year each 500,000 Euro.

**E. Montemor Gold Property**

On January 28, 2009, Iberian Resources Portugal Recursos Minerais Unipessoal Lda (Iberian) a Portuguese subsidiary of Australian Iron Ore PLC (AIOC), submitted to the Direcção-Geral de Energia e Geologia (DGEG) a request for an Experimental Mining License covering the Montemor gold project.

On July 30, 2010, an agreement was formed between the Company and AIOC that states that upon DGEG approval, the Company will pay AIOC €60,000 and become 51% owner and operator of the project. The Company has since paid AIOC the initial €60,000 and the DGEG has approved the Company's 51% beneficial ownership of the project. Upon award of the Experimental Mining License to the Company-AIOC joint venture by the DGEG, the Company will pay AIOC €125,000, issue to AIOC 3,000,000 common shares of the Company, and the Company will become 100% owner of the Montemor gold project. The common shares of the Company to be issued will be escrowed with gradual release of 500,000 shares every four (4) months over a twenty-four (24) month period from the date of granting of the experimental mining license.

**6. MINERAL PROPERTY INTERESTS (Continued)**

Although the transaction has been approved, the 100% ownership is subject to the approval of the experimental mining license by the DGEG, a division of the Portuguese Ministry of Economy, Innovation and Development. Upon approval by the DGEG, The Company will become the 100% owner of the Montemor (Boa Fé) experimental mining license. The Company has also applied for a large exploration concession surrounding the Boa Fé license area, and approval is expected by end of summer 2011

**CANADIAN MINING INTERESTS****F. Extra High Mineral Property (GOLD, ZINC AND LEAD)**

The Company holds a 67% interest on the Extra High property, which is located 60 km north from Kamloops B.C., Canada. Access to the property is by good gravel logging roads to the 1,450 metre elevation.

On January 23, 2008, the Company entered into an Option Agreement with Kokomo Inc. ("Kokomo") whereby the Company had the right and option to acquire, in two separate equal tranches, Kokomo's 66% undivided interest in the Extra High Property. Pursuant to the Option Agreement, the Company exercised the first tranche of the option by making a cash payment of \$250,000 to Kokomo and acquired a 33% undivided interest in the Property. As a result of exercising the first tranche of the option, the Company holds a 67% undivided interest in the Property and has become the primary operator of the Property.

***Contractual Obligations***

Each party shall contribute its proportionate share of the property expenditures. Should any party's interest be diluted to less than a 10% undivided interest in the Property, then its interest will forever be converted to a 0.5% Net Smelter Royalty ("NSR").

**G. Gaspésie Properties (Various Minerals)**

On December 15, 2008 the Company entered into an Agreement with Diagnos Inc, a publicly traded company to acquire a 100% interest in four mineral properties (the "Gaspésie properties") located in the Gaspésie Region of the Province of Quebec (the "Gaspésie Agreement"). The terms of the proposed acquisition include the acquisition of the mineral claims on the four properties for \$35,150 and incurring exploration expenditures in the amount \$214,850. This total debt was to be settled by a payment of \$62,500 in cash and \$187,500 in restricted common shares of the Company at a deemed value of \$0.25 per share for 750,000 common shares, on or before March 27, 2009. During the year ended March 31, 2009, the Company issued 750,000 common shares to Diagnos Inc valued at their quoted market value on the date of issue of \$90,000 or \$0.12 per common share which resulted in a reduction of mineral property acquisition and exploration costs of \$97,500.

The Gaspésie Agreement was amended by letter dated March 26, 2009, whereby the due date of the payment of \$62,500 in cash was extended to May 15, 2009 and further amended by letter dated May 15, 2009 whereby the Company issued 416,667 common shares (issued) to Diagnos Inc at a deemed value of \$0.15 per share for the Gaspésie properties and is obligated to pay Diagnos Inc \$27,662 in cash. Additionally, Diagnos Inc will retain a 2% NSR to a maximum of \$1,000,000 at any time within the first five years of an economic discovery.



**An Exploration Stage Company  
Consolidated Financial Statements**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**6. MINERAL PROPERTY INTERESTS (Continued)**

In August 2010, the Company amended the terms of the concessions and reduced the required minimum exploration expenditures from \$450,000 to \$200,000 by August 31, 2010. The Company committed to an initial exploration program of \$52,000, which was paid in September 2010.

Out of an initial 185 claims under the original Agreement, the Company released 82 and added 21 new ones for a total now of 103 claims.

**REALIZATION OF ASSETS**

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Mineral exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

**TITLE**

Although the Company has taken steps to verify the title to mineral properties for which it has a right to acquire, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous people.

**ENVIRONMENTAL OBLIGATIONS**

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation.

The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

**An Exploration Stage Company**  
**Consolidated Financial Statements**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**6. MINERAL PROPERTY INTERESTS (Continued)**

SUMMARY OF EXPENDITURES

The following chart summarizes the capitalized expenditures for each mineral property over the following periods indicated:

	Canada			Portugal				Total	
	Extra High (note 6f)	Uranium Properties	Gaspésie Properties (note 6g)	Penedono Gold (note 6a)	Armamar- Meda (note 6b)	Moimenta Almendra (note 6c)	Santa Margarida (note 6d)		Montemor Gold (note 6e)
<b>Balance, March 31, 2008</b>	<b>\$ 523,356</b>	<b>\$90,000</b>	<b>\$ 0</b>	<b>\$ 596,837</b>	<b>\$ 53,397</b>	<b>\$4,116</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,267,706</b>
Acquisition costs	-	-	35,150	-	-	-	-	-	35,150
Property development expenditure	-	-	-	-	-	-	-	-	-
Mineral exploration	7,172	-	123,460	406,310	154,570	48,826	-	-	740,338
Mineral exploration tax	(2,151)	-	(18,494)	-	-	-	-	-	(20,645)
Write-off of mineral property interest	-	(90,000)	-	-	-	-	-	-	(90,000)
<b>Balance, March 31, 2009</b>	<b>\$ 528,377</b>	<b>\$0</b>	<b>\$ 140,116</b>	<b>\$1,003,147</b>	<b>\$ 207,967</b>	<b>\$ 52,942</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,932,549</b>
Acquisition costs	-	-	-	-	-	-	20,216	-	20,216
Mineral exploration expenditure	4,733	-	(4,117)	489,931	322,656	88,321	13,101	-	914,625
<b>Balance, March 31, 2010</b>	<b>\$ 533,110</b>	<b>\$0</b>	<b>\$135,999</b>	<b>\$1,493,078</b>	<b>\$530,623</b>	<b>\$141,263</b>	<b>\$33,317</b>	<b>\$0</b>	<b>\$2,867,390</b>
Mineral exploration expenditure	\$902	-	\$54,508	\$589,628	\$545,284	\$95,505	\$137,828	-	\$1,423,655
Acquisition costs	-	-	-	-	-	-	-	\$474,524	\$474,524
<b>Balance, March 31, 2011</b>	<b>\$534,012</b>	<b>\$0</b>	<b>\$190,507</b>	<b>\$2,082,706</b>	<b>\$1,075,907</b>	<b>\$236,768</b>	<b>\$171,145</b>	<b>\$474,524</b>	<b>4,765,569</b>



**An Exploration Stage Company**  
**Consolidated Financial Statements**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**7. CONVERTIBLE DEBENTURES**

At March 31, 2010, convertible debentures with a carrying value of \$271,038 (2009 - \$287,917) due June 28, 2010, bearing interest at 10% per annum due at maturity, were outstanding. The debt was convertible into units, each unit consisting of one common share and one share purchase warrant. If converted before June 29, 2008, the conversion price was \$0.25 per unit; if converted before June 29, 2009, the conversion price will be \$0.30 per unit; and if converted before June 29, 2010, the conversion price will be \$0.35 per unit. Each warrant is exercisable to purchase one common share at \$0.25 to June 29, 2008, \$0.30 to June 29, 2009 and \$0.35 to June 29, 2010, expiring on June 29, 2010.

During the year ended March 31, 2010, \$150,000 of principal and \$33,703 of interest was redeemed for 609,121 units. The non-equity portion related to this conversion in the amount of \$128,280, the equity portion related to this conversion in the amount of \$85,639 and accrued interest in the amount of \$33,703 were recorded as a reduction in the convertible debenture.

On June 28, 2010, the Company issued 883,964 units at \$0.34316 per unit. A unit comprises of one common share and one purchase warrant exercisable into one common share at \$0.35 per share expiring June 29, 2011.

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Convertible debenture, beginning balance	\$ 271,038	\$ 287,917
Interest	32,301	111,401
Conversion of Debentures at Maturity	(303,339)	(128,280)
<b>Convertible Debentures, balance</b>	<b>\$ -</b>	<b>\$ 271,038</b>
Equity portion of convertible debentures, beginning balance	\$ 128,458	\$ 214,097
Equity re-allocation upon Repayment (at maturity)	(128,458)	(85,639)
<b>Equity portion of Convertible Debentures, balance</b>	<b>\$ -</b>	<b>\$ 128,458</b>

During 2008, using the Black-Scholes pricing model, the Company valued the equity portion of the convertible debenture by assuming a 188% volatility, an interest rate of 4.56%, and a term to expiry of 3 years and attributed this value to the deferred charge for conversion feature, which is accreted over the term to maturity using the effective interest rate method, by charges to operations.

The debt portion of the convertible debenture was amortized to its maturity value plus accrued interest using an effective interest rate of 46%.



**An Exploration Stage Company  
Consolidated Financial Statements**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

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**8. CAPITAL STOCK**

(a) Authorized

Unlimited number of common voting shares  
Unlimited number of preferred shares, issuable in series

(b) Issued

On July 18, 2007, the Company consolidated its 29,258,915 old common shares, exchanging 5 (old) common shares for 1 (new) common share resulting in 5,851,783 new common shares outstanding. All common shares and per share amounts have been restated to give retroactive effect to the 5:1 share consolidation that took effect on July 18, 2007.

During 2011 and 2010, the Company closed the following non-brokered private placements:

- i. During fiscal 2010, the Company closed a Non-Brokered Private Placement for a total of 8,999,908 units at \$0.11 per unit for gross proceeds of \$989,990. Each unit consisted of one common share and a half share purchase warrant. For every two warrants the holder can purchase one common share at \$0.15 per share expiring June 30 2011. Finder Fees totaling \$6,000 in cash were paid.
- ii. During fiscal 2010, the Company closed a Non-Brokered Private Placement for a total of 3,980,000 units at \$0.25 per unit for gross proceeds of \$995,000. Each unit consisted of one common share and a half share purchase warrant. For every two warrants the holder can purchase one common share at \$0.45 per share expiring February 25, 2012. Finder Fees totaling \$41,000 in cash were paid.
- iii. During fiscal 2011, the Company closed Non-Brokered Private Placements for a total of 10,840,000 units at \$0.25per unit for gross proceeds of \$2,710,000. Each unit consisted of one common share and a half share purchase warrant. For every two warrants the holder can purchase one common share at \$0.45 per share expiring February 25, 2012. Finder Fees totaling \$38,338 in cash were paid.
- iv. During fiscal 2011, the Company closed Non-Brokered Private Placements for a total of 9,999,997 units at \$0.35per unit for gross proceeds of \$3,499,999. Each unit consisted of one common share and a half share purchase warrant. For every two warrants the holder can purchase one common share at \$0.45 per share expiring February 25, 2012. Finder Fees totaling \$188,400 in cash were paid

(c) Issued for mineral property interest and settlement of liabilities

During fiscal 2010, the Company issued 416,667 common shares valued at \$0.15 based on the quoted market value of the Company's shares on the date of issue for settlement of liabilities related to exploration expenditures on the Gaspésie properties.



**An Exploration Stage Company**  
**Consolidated Financial Statements**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

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**8. CAPITAL STOCK (Continued)**

(d) Issued for conversion of debentures

During fiscal 2010 Convertible Debentures valued at \$213,919 was converted into units at a rate of \$0.35 per unit. Each unit consisted of one common share and one warrant yielding 609,121 common shares and warrants.

During fiscal 2011, the Company issued 883,964 units comprised of 883,964 common shares at \$0.34 calculated at the weighted average price for the 20 days preceding the fifth trading day prior to term and 1 warrant exercisable into one common share at \$0.35 per share expiring June 29, 2011 for settlement of the Company's convertible debentures.

(e) Stock-Based Compensation

The Company has a stock option plan in which officers, directors, employees, and consultants can participate. The total number of common shares reserved for issuance under the current option plan (2007 Plan) cannot exceed 20% of the common shares outstanding at the date of the grant. The terms of the options are set by the Board of Directors at the time of grant with an exercise price not less than \$0.05 per share and a term not exceeding five years.

During the fiscal year ended March 31, 2010 a total of 3,526,580 options were issued to directors, officers and consultants with a strike price of \$0.25 and five year expiry. The company valued and recorded the issuances at \$374,086. The amount was allocated to Directors Compensation and Consulting Expense.

The Company uses the relative fair value method using the Black-Scholes option pricing model to value and account for stock options issued during the reporting period. During the fiscal year ended March 31, 2011 the Company issued 5,020,000 stock options (3,370,000 at \$0.27, 1,400,000 at \$0.56 and 250,000 at \$0.91) for management, directors and consultants.

The fair values of the stock options issued during the year were estimated on the date of grant using the Black Scholes options pricing model with the following assumptions:

	<b>2011</b>	<b>2010</b>
Expected life (years)	5	2-5
Risk Free Rate	2%	1.27-2.41%
Volatility	72.00%	85%
Dividend yield	0.00%	0.00%

Stock options which vest immediately upon grant were assigned a value of \$1,265,942 (2010 \$374,086)



**An Exploration Stage Company**  
**Consolidated Financial Statements**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**8. CAPITAL STOCK (Continued)**

The following summarizes the stock option activity during the period ended March 31, 2011 and 2010:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
<b>Balance, March 31, 2008</b>	<b>2,005,611</b>	<b>\$ 0.25</b>	<b>4.74</b>
Options granted	600,000	\$ 0.25	
Options forfeited	(829,031)	\$ 0.25	
<b>Balance, March 31, 2009</b>	<b>1,776,580</b>	<b>\$ 0.25</b>	<b>2.78</b>
Options granted	3,526,580	\$ 0.25	
Options forfeited	(1,003,160)	\$ 0.25	
Options Exercised	(150,000)	\$0.25	
<b>Balance, March 31, 2010</b>	<b>4,150,000</b>	<b>\$ 0.25</b>	<b>2.98</b>
Options Exercised	(400,000)	\$0.25	
Options Granted	3,370,000	\$0.27	
Options Granted	1,400,000	\$0.56	
Options Granted	250,000	\$0.91	
<b>Balance, March 31, 2011</b>	<b>8,770,000</b>	<b>\$0.33</b>	<b>4.30</b>

The following stock options are outstanding and exercisable at March 31, 2011:

Expiry Date	Exercise Price	Number of Options	
		March 31, 2011	March 31, 2010
March 19, 2011	\$0.25		100,000
March 19, 2013	\$0.25	850,000	850,000
April 8, 2014	\$0.25	750,000	750,000
May 25, 2011	\$0.25	200,000	200,000
May 28, 2014	\$0.25	100,000	100,000
November 23, 2014	\$0.25	1,850,000	2,150,000
September 2, 2015	\$0.27	3,370,000	
November 8, 2015	\$0.56	1,400,000	
March 25, 2016	\$0.91	250,000	
<b>Total stock options outstanding</b>		<b>8,770,000</b>	<b>4,150,000</b>
<b>Total stock options exercisable</b>		<b>8,520,000</b>	<b>4,150,000</b>

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate

**An Exploration Stage Company**  
**Consolidated Financial Statements**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**8. CAPITAL STOCK (Continued)**

(f) Warrants

The following summarizes the warrant activity during the fiscal years ended March 31, 2011 and March 31, 2010:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Balance, March 31, 2008	4,429,850	\$ 0.30	2.59
Warrants expired	(310,720)	\$ 0.25	
Warrants issued	7,084,240	\$ 0.30	
Balance, March 31, 2009	11,203,370	\$ 0.30	1.62
Warrants expired	(853,200)	\$ 0.29	
Warrants exercised	(154,544)	\$ 0.29	
Warrants issued	6,834,074	\$ 0.24	
Balance, March 31, 2010	17,029,700	\$ 0.29	1.20
Warrants expired / Exercised	(965,122)	\$ 0.26	
Warrants issued	11,286,686	\$ 0.43	
Finder Warrants Issued	674,800	\$ 0.25	
Balance, March 31, 2011	28,026,064	\$ 0.37	1.15

As at March 31, 2011, the following warrants are outstanding. Each warrant entitles the holder to purchase one common share at the exercise price per common share with the following expiry dates:

Expiry Date	Exercise	Number of Warrants	
	Price	March 2011	March 2010
December 30, 2010	\$0.30	-	3,908,000
June 29, 2010	\$0.30/\$0.35	-	-
June 29, 2011	\$0.30		609,121
June 29, 2011	\$0.35	6,091,776	4,782,170
June 30, 2011	\$0.15	3,937,409	4,345,409
July 30, 2011	\$0.30	1,360,000	1,360,000
February 25, 2012	\$0.45	15,537,999	1,590,000
March 3, 2012	\$0.30	300,000	300,000
March 23, 2012	\$0.45		135,000
February 25, 2012	\$0.25	798,880	-
<b>Total warrants outstanding and exercisable</b>		<b>28,026,064</b>	<b>17,029,700</b>

**8. CAPITAL STOCK (Continued)**

On June 24, 2009, the company issued 609,121 warrants resulting from the conversion of a convertible debenture into 609,121 units (each unit comprising of one share and one purchase warrant at \$0.30). The purchase warrants expire on June 29<sup>th</sup> 2011.

On July 7, 2009, the company issued 1,000,000 warrants resulting from the June 2009 Non-Brokered Private Placement of 2,000,000 units (each unit comprising of one share and half a warrant at \$0.15). The purchase warrants expire on June 30<sup>th</sup> 2011.

On July 14, 2009, the company issued 669,544 warrants resulting from the June 2009 Non-Brokered Private Placement of 1,339,088 units (each unit comprising of one share and half a warrant at \$0.15). The purchase warrants expire on June 30<sup>th</sup> 2011.

On July 31, 2009, the company issued 340,909 warrants resulting from the June 2009 Non-Brokered Private Placement of 681,818 units (each unit comprising of one share and half a warrant at \$0.15). The purchase warrants expire on June 30<sup>th</sup> 2011.

On November 16, 2009, the company issued 2,489,500 warrants resulting from the June 2009 Non-Brokered Private Placement of 4,979,000 units (each unit comprising of one share and half a warrant at \$0.15). The purchase warrants expire on February 25<sup>th</sup> 2012

In March 17, 2010, the Company issued 1,260,000 warrants resulting from the February 2010 Non-Brokered Private Placement of 2,520,000 units (each unit comprising of one share and half a warrant at \$0.45). The purchase warrants expire on March 23<sup>rd</sup> 2012

On March 24, 2010, the Company issued 135,000 Finder Warrants resulting from the February 2010 Non-Brokered Private Placement. Each warrant unit is convertible at \$0.25 and comprises of one share and one warrant at \$0.45. The Purchase Warrants expire on March 23, 2012 and a value of \$16,089 was recorded at fiscal year-end in shareholder's equity using the Black Scholes method (85% Volatility, 2.18% risk free rate and 730 days to expiration).

On March 25, 2010, the Company issued 330,000 warrants resulting from the February 2010 Non-Brokered Private Placement of 660,000 units (each unit comprising of one share and half a warrant at \$0.45). The purchase warrants expire on February 25, 2012.

On June 28, 2010, the Company extended the expiry of the warrants that were associated with the former Convertible Debenture holders that have a strike price of \$0.35 (original expiry date of June 29 2010). The new expiry date, which was duly approved by the board of directors on June 28, 2010 and by the Canadian National Stock Exchange (CNSX), was set at June 29, 2011.

As a result of the extension of the expiry date, the incremental fair value of \$306,966 was recorded to deficit with a corresponding credit to contributed surplus using the Black Scholes option pricing model with the following assumptions: Volatility 72%, risk free interest rate 1.42%, expected life 1 year and expected dividend of 0%

During the period ended June 30, 2010, the Company issued 2,610,000 warrants and 626,800 finder warrants resulting from the February 2010 Non-Brokered Private Placement of 5,220,000 units (each unit comprising of one share and half a warrant at \$0.45). The purchase warrants expire on February 25, 2012 and a value of \$86,902 was recorded in shareholders equity using the Black Scholes option pricing model with the following assumptions: (Volatility 72%, risk free interest rate 1.42%, expected life 1.42 years and expected dividend of 0%)

**8. CAPITAL STOCK (Continued)**

On September 10, 2010 the Board of Directors passed a resolution to extend the terms and price of the Company's purchase warrants that were issued as part of a private placement which closed in June 2008. The expiry date was extended to February 26, 2012 and the exercise price was amended from \$0.30 to \$0.45.

As a result of the extension of the modification, the incremental fair value of \$142,207 was recorded to deficit with a corresponding credit to contributed surplus using the Black Scholes option pricing model with the following assumptions:

Volatility 72%, risk free interest rate 1.42%, expected life 1.4 years and expected dividend of 0%

During the period ended September 30, 2010, the Company issued 3,676,687 warrants and 48,000 finder warrants resulting from the February 2010 Non-Brokered Private Placement units comprising of one share and half a warrant at \$0.45. The purchase warrants expire on February 25, 2012, and a value of \$4,738 was recorded in shareholders equity using the Black Scholes option pricing model with the following assumptions: (Volatility 72%, risk free interest rate 1.42%, expected life 1.42 years and expected dividend of 0%)

During the period ended December 31, 2010, the Company issued 4,999,999 warrants resulting from the February 2010 Non-Brokered Private Placement units comprising of one share and half a warrant at \$0.45. The purchase warrants expire on February 25, 2012.

**9. RELATED PARTY TRANSACTIONS**

- (a) An officer of wholly-owned subsidiary Eurocolt (Portugal) received a monthly consulting fee of €5,000 plus €1,000 per day while on site. As at March 31, 2011, \$47,183 (\$25,521 as at March 31, 2010) was owed to the related party.
- (b) A director charges the Company a fee of \$600 per day for geological consulting whenever his services are required. As at March 31, 2011, \$0 (\$8,466 as at March 31, 2010) was owed to the related party.
- (c) A director and Chief Executive Officer ("CEO") of the Company charged the Company a fee of \$10,000 per month for professional fees. As at March 31, 2011 \$0 (\$11,287 March 31, 2010) was owed to the related party.
- (d) A director and Chief Financial Officer ("CFO") charged the Company \$7,500 per month as professional fees pursuant to his contract with the Company. In May 2010 the contract was renewed with a monthly fee of \$10,000. As at March 31, 2011 \$0 (\$0 as at March 31, 2010) was owed to the related party.
- (e) A director charges the Company a monthly fee of €1000 as director fees plus expenses. As at March 31, 2011, \$4,134 was owed to the related party.
- (f) A director and Corporate Secretary charged the Company an hourly rate of \$250 for professional fees. In May 2010 the Company retained his services for a fixed fee of \$5,000 per month. As at March 31, 2011 \$0 (\$4,396 as at March 31, 2010) was owed to the related party.
- (g) A director and consultant charges the Company \$2000 per day plus expenses for services rendered. As at March 31, 2011 \$31,695 was owed to the related party.



**An Exploration Stage Company  
Consolidated Financial Statements**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**9. RELATED PARTY TRANSACTIONS (continued)**

- (h) An advisor and consultant to the Company charges a daily rate of \$1,200 for services rendered. As at March 31, 2011, \$0 was owed to the related party.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The balances owing to the related parties are unsecured, on-interest bearing and due on demand.

**10. SEGMENTED INFORMATION**

The Company operates in one reportable operating segment, being the acquisition and exploration of mineral property interests and in two geographical segments, Canada and Portugal. The capital assets (including mineral properties) and total assets identifiable with these geographic areas are as follows:

<b>Total Assets</b>	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Canada	\$ 1,826,300	\$ 1,257,964
Portugal	\$ 4,763,433	\$ 2,284,842
	\$ 6,589,733	\$ 3,542,806

**11. INVESTOR RELATIONS AND MARKETING**

During the fiscal years ended March 31, 2011 and 2010, the Company invested considerable expenditure in relation to financial and managerial resources for marketing and promotional activities. The table below provides a breakdown of this expense category.

<b>Expense Item</b>	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Capital market advisory	\$ 960,342	\$ 33,174
Investor relations professional fees	287,227	67,154
Trade events	116,657	-
Travel	337,992	5,869
Management consulting	98,000	-
	\$ 1,800,218	\$ 106,197

**An Exploration Stage Company**  
**Consolidated Financial Statements**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**12. INCOME TAXES**

The reconciliation of income tax provision computed at the statutory tax rates for the year ended March 31, 2011 of 29.90% (2010 – 30.90%) in Canada and 26.50% (2010 – 26.50%) in Portugal to the reported income tax provision is as follows:

	<b>2011</b>	<b>2009</b>
Income tax benefit computed at statutory rates	\$ 1,493,308	\$ 388,700
Non-deductible write-down of mineral property interest	-	-
Non-deductible stock-based compensation	(378,517)	(115,600)
Other non-deductible items	(300)	(3,273)
Share issue and financing costs	31,440	18,736
Other timing differences	(206,054)	(43,356)
Change in valuation allowance	(939,877)	(248,574)
	<b>\$ -</b>	<b>\$ (3,340)</b>

Future income tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The applicable tax rate to be expected is 26.90% for 2011 and 26.90% for 2010. Significant components of the Company's future tax assets as at March 31 are as follows:

	<b>2011</b>	<b>2010</b>
Future income tax assets		
Non-capital loss carry-forwards in Canada	\$ 1,648,488	\$ 756,830
Non-capital loss carried forward in Portugal	37,997	16,343
Capital loss carry-forwards	1,665	1,792
Undeducted share issuance and financing costs	67,188	40,663
Cumulative eligible capital	30,411	32,723
Non-refundable mining exploration tax credit	10,390	11,180
Excess of tax basis over carrying amount of equipment	6,270	4,621
Excess of carrying amount over tax basis of mineral property interests	(21,318)	(22,938)
	<b>1,781,091</b>	<b>841,214</b>
Valuation allowance for future income tax assets	(1,781,091)	(841,214)
Future income tax assets, net	<b>\$ -</b>	<b>\$ -</b>

The Company has capital losses for income tax purposes of approximately \$13,300, which can be carried forward indefinitely.

**12. INCOME TAXES** (continued)

The Company has available non-capital losses of approximately \$6,594,000 (\$2,870,000 March 31, 2010) that may be carried forward to apply against future income for Canadian tax purposes. The losses expire as follows:

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2014	43,000
2025	26,000
2026	43,000
2027	66,000
2028	812,000
2029	925,000
2030	955,000
2031	3,724,000
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	\$ 6,594,000

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Included in above, the Company has losses from operation of approximately \$143,400 (2010-\$61,700) that may be carried forward to apply against future income for Portuguese tax purposes. The losses expire in 2016 (2010-2016).

During the year ended March 31, 2011, the Company renounced \$NIL (2010 – \$NIL) of qualifying Canadian Exploration Expenditures pursuant to the issuance of flow-through shares.

The Company has approximately \$41,560 (2010 - \$41,500) in pre-production mining expenditures income tax credits which may be used to offset federal income taxes payable. Credits may be carried forward for a maximum of 20 years to be applied against I income for federal tax purposes.

**13. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are as follows:

- I. to safeguard the entity's ability to continue as a going concern such that it can continue in its exploration activities to provide returns to shareholders and benefits to other stakeholders
- II. to secure sufficient cash and cash equivalents to fund the Company's business plans, including the exploration activities required for the development of its mineral property interests.

The Company considers the items included in shareholders' equity (excluding equity portion of Convertible Debentures) in the definition of capital.

The Company's primary uses of capital are to finance the exploration and property development activities required on its mineral properties, market and investor development, capital expenditures and operating losses.

There were no changes to the Company's approach to capital management objectives during the year ended March 31, 2011.

**14. COMMITMENTS**

During fiscal year ended March 31, 2011,

- (a) On May 2010, the Company announced it had retained the services of Helen Bilhete IRO to provide Investor relations services and support for the Canadian market. The agreement is renewable every year with a monthly cost of \$5,000.
- (b) In July 2010, the Company retained the services of D&D Securities to act as sponsors towards the Company's listing of its common shares in the TSX Venture Exchange. The Company received an estimate of \$74,500 to manage the process and also issued a right of first refusal on brokered equity financings over the following 18 months.
- (c) In July 2010, the Company entered into an Agreement with Australian Iron Ore, via a Joint Venture, to become the operator and subsequently acquire the Montemor Gold Project located in southern Portugal. The terms of the Agreement included an initial payment of €60,000 in order to become a 51% owner of the project.

Upon award of an experimental mining license to the joint venture, The Company is obligated to pay an additional €125,000 and to issue 3,000,000 common shares to be escrowed with gradual releases of 500,000 every four months over a 24-month period. Subsequent to this, Colt Resources will become 100% owner of the project.

- (d) In August 2010, the Company renegotiated its contractual obligation with Diagnos Inc with respect to the Gaspésie Mineral Project. The Company amended the terms of the concessions and reduced the required minimum of exploration expenditures from \$450,000 to \$200,000 by August 31, 2010. The Company committed to an initial exploration program of \$52,000, which was paid in September 2010. Out of an initial 185 claims under the original Agreement, the Company released 82 and added 21 new ones for a total now of 103 claims.
- (e) In August 2010, the Company listed its common shares for trading on the OTCQX, the OTC highest tier in the US. The Company expects an annual fee of US\$20,000, billed quarterly, as part of its ongoing commitments.
- (f) In December 2010, the Company signed a lease agreement for its main offices in Montreal. The agreement was signed with 2000 McGill College Ave. Building Inc for a term of 5 years and a monthly rent of \$6,657.

The Company is committed to future minimum annual lease payments under operating leases for office space excluding common area maintenance charges, as follows:

2012	\$	79,884
2013		79,884
2014		79,884
2015		79,884
2016		59,913
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	\$	379,449
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**An Exploration Stage Company  
Consolidated Financial Statements**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010**

**15. SUBSEQUENT EVENTS**

- a. In March 2011, the Company announced a \$15 million bought deal Public Offering comprised of 21,000,000 common shares at \$0.72 and a con-current private placement of 3,472,222 shares at \$0.72. In April 2011, the Company announced it had obtained receipt for the short form Final Prospectus in connection with the Public Offering announced in March 2011. Also in April 2011, the Company announced the closing of the Public Offering with total gross proceeds of \$13,392,000.
- b. In April 2011, the Company announced that Richard Quesnel, who had joined the board of directors on March 25, 2011, was stepping down as requested by the TSX Venture Exchange.
- c. In June 2011, the Company announced the appointment of Jean Depatie as non-executive chairman of the board of directors.