

**CLIFTON MINING COMPANY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**Clifton Mining Company**  
**Index to the Financial Statements**  
**December 31, 2011 and 2010**

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## Report of Independent Registered Public Accounting Firm

Board of Directors  
Clifton Mining Company  
Alpine, Utah

We have audited the accompanying consolidated balance sheets of Clifton Mining Company and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations and other comprehensive income, stockholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Clifton Mining Company and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

*HJ & Associates, LLC*

HJ & Associates, LLC  
Salt Lake City, Utah  
March 20, 2012

**CLIFTON MINING COMPANY**  
**Consolidated Balance Sheets**

**ASSETS**

|   | Years Ended December 31, |              |
|---|--------------------------|--------------|
|   | 2011                     | 2010         |
| <b>CURRENT ASSETS</b>                   |                          |              |
| Cash                                    | \$ 62,909                | \$ 118,196   |
| Marketable securities (Note 9)          | 29,924                   | 10,501       |
| Receivables                             | 22,459                   | 600          |
| Prepaid expenses                        | 10,561                   | 5,707        |
| Total Current Assets                    | 125,853                  | 135,004      |
| <b>PROPERTY AND EQUIPMENT</b>           |                          |              |
| Mining properties (Note 3)              | 924,444                  | 924,444      |
| Buildings, net (Note 5)                 | 231,447                  | 240,919      |
| Milling equipment, net (Note 5)         | 744,440                  | 772,330      |
| Equipment, net (Note 5)                 | 838                      | 2,710        |
| Total Property and Equipment, Net       | 1,901,169                | 1,940,403    |
| <b>OTHER ASSETS</b>                     |                          |              |
| Equity investment in affiliate (Note 2) | 781,111                  | 592,299      |
| Cost investment in affiliate (Note 9)   | 392,577                  | 392,577      |
| Restricted cash-reclamation             | 16,705                   | 16,705       |
| Patent filings                          | 27,824                   | 29,624       |
| Deposit                                 | 1,575                    | 1,575        |
| Total Other Assets                      | 1,219,792                | 1,032,780    |
| Total Assets                            | \$ 3,246,814             | \$ 3,108,187 |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|  |              |              |
|--|--------------|--------------|
| <b>CURRENT LIABILITIES</b>   |              |              |
| Accounts payable and accrued liabilities   | \$ 50,474    | \$ 6,726     |
| Accrued related party payables   | 278,943      | 54,491       |
| Total Current Liabilities  | 329,417      | 61,217       |
| <b>LONG-TERM LIABILITIES</b>   |              |              |
| Reclamation and remediation liabilities (Note 4)   | 30,816       | 29,035       |
| Total Liabilities  | 360,233      | 90,252       |
| <b>STOCKHOLDERS' EQUITY</b>  |              |              |
| Preferred stock, \$0.001 par value, 10,000,000 shares authorized; 154,584 and 154,584 shares issued and outstanding, respectively    | 155          | 155          |
| Common stock, \$0.001 par value, 70,000,000 shares authorized; 56,011,606 and 55,711,606 shares issued and outstanding, respectively | 56,012       | 55,712       |
| Additional paid-in capital   | 15,561,756   | 15,256,451   |
| Retained deficit   | (12,779,526) | (12,323,046) |
| Accumulated other comprehensive income   |              |              |
| Unrealized gain (loss) on securities   | 18,467       | (956)        |
| Total Clifton Mining Stockholders' Equity  | 2,856,864    | 2,988,316    |
| Noncontrolling interest  | 29,717       | 29,619       |
| Total Stockholders' Equity   | 2,886,581    | 3,017,935    |
| Total Liabilities and Stockholders' Equity   | \$ 3,246,814 | \$ 3,108,187 |

See accompanying notes to consolidated financial statements.

**CLIFTON MINING COMPANY**  
**Consolidated Statements of Operations and Other Comprehensive Income**

|  | Years Ended December 31, |              |
|--|--------------------------|--------------|
|  | 2011                     | 2010         |
| REVENUE  | \$ 28,494                | \$ -         |
| EXPENSES   |                          |              |
| Exploration costs  | 6,701                    | 11,435       |
| Research and development   | 57,047                   | 19,566       |
| General and administrative   | 43,827                   | 31,672       |
| Professional fees  | 166,544                  | 40,938       |
| Accretion expense  | 1,781                    | 1,679        |
| Depreciation and amortization  | 52,469                   | 50,745       |
| Salaries and employee benefits   | 327,547                  | 288,244      |
| Stock based compensation   | 209,605                  | 173,608      |
| Property and claim taxes, filing fees and insurance  | 32,485                   | 30,787       |
| Total Expenses   | 898,006                  | 648,674      |
| Loss From Operations   | (869,512)                | (648,674)    |
| OTHER INCOME (EXPENSE)   |                          |              |
| Interest income  | 327                      | 596          |
| Other income (Note 3)  | 2,400                    | 2,400        |
| Gain from equity investment  | 214,480                  | 10,608       |
| Gain on sale of property and equipment   | -                        | 3,050        |
| Gain on sale from affiliate stock transactions   | 195,940                  | 145,698      |
| Other Income (Expense)   | 413,147                  | 162,352      |
| Income (Loss) Before Income Taxes  | (456,365)                | (486,322)    |
| Income Taxes   | -                        | -            |
| Net Income (Loss)  | (456,365)                | (486,322)    |
| Less: Net Income Attributable To Noncontrolling Interest                                       | (115)                    | (39)         |
| Net Income (Loss) Attributable to Clifton Mining   | \$ (456,480)             | \$ (486,361) |
| Net income (loss) per share – basic and fully diluted  | \$ (0.01)                | \$ (0.01)    |
| Weighted average number of common shares outstanding during the year – basic and fully diluted | 55,967,222               | 54,299,000   |
| Net Income (Loss) Per Above  | \$ (456,480)             | \$ (486,361) |
| Other comprehensive income, net of tax   |                          |              |
| Unrealized gain (loss) on securities   | 19,423                   | (956)        |
| Comprehensive gain (loss)  | \$ (437,057)             | \$ (487,317) |

See accompanying notes to consolidated financial statements.

**CLIFTON MINING COMPANY**  
**Consolidated Statements of Cash Flows**

|   | Years Ended December 31, |                   |
|---|--------------------------|-------------------|
|   | 2011                     | 2010              |
| <b>Cash Flows From Operating Activities:</b>                                |                          |                   |
| Net Income (Loss)   | \$ (456,365)             | \$ (486,322)      |
| Adjustments to reconcile net loss to net cash used by operating activities: |                          |                   |
| Depreciation and amortization expense                                       | 52,469                   | 50,745            |
| Accretion expense   | 1,781                    | 1,679             |
| Issuance of stock for services  | 96,000                   | -                 |
| Gain from sale of affiliate stock transactions                              | (195,940)                | (145,698)         |
| Equity in earnings from equity investment                                   | (214,480)                | (10,608)          |
| Valuation for stock based compensation expense related to options           | 209,605                  | 173,608           |
| Changes in operating assets and liabilities:                                |                          |                   |
| (Increase) in receivables, prepaid expenses, and other assets               | (26,713)                 | (1,867)           |
| Increase in accounts payable and accrued liabilities                        | 268,200                  | 22,035            |
| Net Cash Used in Operating Activities                                       | <u>(265,443)</u>         | <u>(396,428)</u>  |
| <b>Cash Flows From Investing Activities:</b>                                |                          |                   |
| Purchase of Woodman common stock  | (17)                     | -                 |
| Acquisition of property, plant, and equipment                               | (11,435)                 | (25,250)          |
| Distributions from equity investment  | 221,608                  | 16,910            |
| Purchase of intangibles   | -                        | (6,382)           |
| Net Cash Provided (Used) by Investing Activities                            | <u>210,156</u>           | <u>(14,722)</u>   |
| <b>Cash Flows From Financing Activities:</b>                                |                          |                   |
| Issuance of capital stock, net of offering costs                            | -                        | 262,086           |
| Net Cash Provided by Financing Activities                                   | <u>-</u>                 | <u>262,086</u>    |
| Net (decrease) in Cash  | (55,287)                 | (149,064)         |
| Cash, Beginning of Year   | 118,196                  | 267,260           |
| Cash, End of Year   | <u>\$ 62,909</u>         | <u>\$ 118,196</u> |
| <b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>                                  |                          |                   |
| Interest paid   | \$ -                     | \$ -              |
| Taxes paid  | \$ -                     | \$ -              |

See accompanying notes to consolidated financial statements.

**CLIFTON MINING COMPANY**  
**Consolidated Statements of Stockholders' Equity**  
**for the Years Ended December 31, 2011 and 2010**

|  | <u>Series A Preferred Shares</u> |               | <u>Common Shares</u> |                  | <u>Additional</u>    | <u>Retained Deficit</u> | <u>Other</u>     | <u>Clifton Mining</u> | <u>Non-</u>      | <u>Total</u>        |
|--|----------------------------------|---------------|----------------------|------------------|----------------------|-------------------------|------------------|-----------------------|------------------|---------------------|
|  | <u>Shares</u>                    | <u>Amount</u> | <u>Shares</u>        | <u>Amount</u>    | <u>Paid-in</u>       |                         | <u>Compre-</u>   |                       |                  |                     |
|  |                                  |               |                      |                  | <u>Capital</u>       |                         | <u>hensive</u>   | <u>Equity</u>         | <u>Interest</u>  | <u>Equity</u>       |
|  |                                  |               |                      |                  |                      |                         | <u>Income</u>    |                       |                  |                     |
| Balance, December 31, 2009<br>(Restated)         | 186,584                          | \$ 187        | 53,715,462           | \$ 53,715        | \$ 14,822,722        | \$ (11,836,685)         | \$ 1,888         | \$ 3,041,827          | \$ 29,580        | \$ 3,071,407        |
| Shares issued for cash                           | -                                | -             | 1,964,144            | 1,965            | 273,015              | -                       | -                | 274,980               | -                | 274,980             |
| Stock offering costs                             | -                                | -             | -                    | -                | (12,894)             | -                       | -                | (12,894)              | -                | (12,894)            |
| Series A Preferred shares<br>converted to common | (32,000)                         | (32)          | 32,000               | 32               | -                    | -                       | -                | -                     | -                | -                   |
| Compensation related to<br>options               | -                                | -             | -                    | -                | 173,608              | -                       | -                | 173,608               | -                | 173,608             |
| Net loss for the year                            | -                                | -             | -                    | -                | -                    | (486,361)               | -                | (486,361)             | 39               | (486,322)           |
| Accumulated unrealized gain<br>on securities     | -                                | -             | -                    | -                | -                    | -                       | (2,844)          | (2,844)               | -                | (2,844)             |
| Balance, December 31, 2010                       | 154,584                          | 155           | 55,711,606           | 55,712           | 15,256,451           | (12,323,046)            | (956)            | 2,988,316             | 29,619           | 3,017,935           |
| Shares issued for services                       | -                                | -             | 300,000              | 300              | 95,700               | -                       | -                | 96,000                | -                | 96,000              |
| Compensation related to<br>options               | -                                | -             | -                    | -                | 209,605              | -                       | -                | 209,605               | -                | 209,605             |
| Purchase of noncontrolling<br>interest           | -                                | -             | -                    | -                | -                    | -                       | -                | -                     | (17)             | (17)                |
| Net loss for the year                            | -                                | -             | -                    | -                | -                    | (456,480)               | -                | (456,480)             | 115              | (456,365)           |
| Accumulated unrealized gain<br>on securities     | -                                | -             | -                    | -                | -                    | -                       | 19,423           | 19,423                | -                | 19,423              |
| Balance, December 31, 2011                       | <u>154,584</u>                   | <u>\$ 155</u> | <u>56,011,606</u>    | <u>\$ 56,012</u> | <u>\$ 15,561,756</u> | <u>\$ (12,779,526)</u>  | <u>\$ 18,467</u> | <u>\$ 2,856,864</u>   | <u>\$ 29,717</u> | <u>\$ 2,886,581</u> |

See accompanying notes to consolidated financial statements.

**Clifton Mining Company**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Clifton Mining Company (the Company), was incorporated on June 8, 1993 under the laws of the State of Utah. In the beginning years, the Company was engaged in the process of acquiring, exploring, and developing properties or selling the properties at an appreciated value. The Company has acquired several claims which have previously been in production, with historical production records. The Company has obtained a report calculating mineralized material for the Clifton shear zone property (see Note 3 – Mineral Properties) and is no longer considered to be in the exploration stage. The Company is now primarily engaged in property management by joint venturing the properties to other companies including the use of the Company's equipment to bring the claims into production and investing in other businesses.

Principles of Consolidation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and include the accounts of its 61% owned subsidiary, Woodman Mining Company. All intercompany accounts have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash includes all cash and investments with original maturities to the Company of three months or less.

Investments in Securities

The Company has investments in equity securities. These securities are classified at the date of acquisition as marketing securities, held-to-maturity securities or available-for-sale securities and generally have maturities greater than one year. Management determines the appropriate classifications of investments at the time of purchase, based on management's intent to use these investments during the normal operating cycle of the business, and reevaluates such designation as of each balance sheet date. Marketable securities, which represent securities purchased for the purpose of resale in the near term, are reported at fair value and unrealized gains and losses are included in earnings. Held-to-maturity securities are reported at amortized cost, as the Company has both the ability and intent to hold such securities until maturity. Available-for-sale securities are reported at fair value with unrealized gains and losses, net of the related tax effect, reflected as an accumulated other comprehensive income (loss) component of stockholders' equity until such gains or losses are realized. Realized gains and losses on investment securities are determined using the specific identification method. Dividend and interest income are recognized when earned.

The Company regularly monitors and evaluates the value of its marketable securities. In accordance with ASC Topic 320, "Investments - Debt & Equity", and related guidance issued by FASB and the SEC which calls for the classification of impairments as "temporary" or "other-than-temporary." A temporary impairment charge results in an unrealized gain (loss) being recorded in the other comprehensive income gain (loss) component of stockholders' equity. Such an unrealized gain (loss) does not affect net income (loss) for the applicable reporting period. An other-than-temporary impairment charge is recorded as a recognized permanent loss in the consolidated statement of operations and reduces net income (loss) for the applicable reporting period. The differentiating factors between temporary and other-than-temporary impairment are primarily the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain its investment with the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

**Clifton Mining Company**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When assessing marketable securities for other-than-temporary declines in value, the Company considers such factors, among other things, as how significant the decline in value is as a percentage of the original cost, how long the market value of the investment has been less than its original cost, the collateral supporting the investments, insurance policies which protect the Company's investment position, the interval between auction periods, whether or not there have been any failed auctions, and the credit rating issued for the securities by one or more of the major credit rating agencies.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

Equity Investments

The Company accounts for its investments in companies subject to significant influence using the equity method of accounting, under which, the Company's pro-rata share of the net income (loss) of the affiliate is recognized as income (loss) in the Company's income statement. The Company also records its share of the change in equity of the affiliate in the Company's income statement and is added to the investment on the balance sheet. Dividends received from the affiliate are treated as a return of capital and are accordingly deducted from the carrying value of the investment.

Depreciation

Equipment is recorded at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the assets over periods ranging from three to thirty-nine years. Expenditures for maintenance and repairs which do not extend the useful lives of the related assets are expensed as incurred.

Patent

The measurable patent costs that were initially capitalized totaled \$29,695. The patent was granted December 14, 2010 and is being amortized over a 16.5 life beginning December 2010. The Company evaluates the recoverability of intangibles and reviews the amortization period on a continual basis utilizing the guidance of ASC 350, "Intangibles - Goodwill and Other." Several factors are used to evaluate intangibles, including, but not limited to, management's plans for future operations.

Stock – Based Compensation

ASC Topic 718 and 505, requires that share-based payments be reflected as an expense based upon the grant-date fair value of those awards. The expense is recognized over the remaining vesting periods of the awards. The Company estimates the fair value of these awards using the Black-Scholes model. This model requires management to make certain estimates in the assumptions used in this model, including the expected term the award will be held, volatility of the underlying common stock, discount rate and forfeiture rate. We develop our assumptions based on our past historical trends as well as consider changes for future expectations.

**Clifton Mining Company**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

The fair values of the Company's financial instruments as defined by FASB ASC 825-10-50, reflect the estimates of amounts that would be received from selling an asset in an orderly transaction between market participants at the measurement date. The fair value estimates presented in this report are based on information available to the Company as of December 31, 2011 and December 31, 2010.

The carrying values of cash and cash equivalents approximate fair value. The authoritative guidance issued by the FASB includes a fair value three-tier hierarchy which prioritizes the inputs used in measuring the fair value. The first two levels of inputs are considered observable and the last level is considered unobservable, that may be used to measure fair value as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 - Unobservable inputs in which there is little or no market activity and that are significant to the fair value of the assets or liabilities, which require the reporting entity to develop its own assumptions.

Property Acquisition Evaluations and Mineral Exploration Costs

Acquisition costs of mining properties are deferred in the accounts. Mineral exploration expenditures are expensed as incurred. When production is attained, these costs will be depleted using the unit of production method based upon estimated proven recoverable reserves. When deferred expenditures on individual properties exceed their estimated net realizable value, the properties are written down to the estimated value. Costs relating to properties abandoned are charged to operations in the period in which that determination is made.

Costs include the cash consideration and the fair market value of shares issued for the acquisition of mineral properties.

The Company is in the process of exploring and developing its mineral properties and has determined the initial amount of mineralized material available. Senior management regularly reviews the carrying amount of mineral properties to assess whether there has been any impairment in value.

Reclamation and Remediation Costs

Current laws and regulations require certain closure, reclamation and remediation work to be done on mineral properties as a result of exploration, development and operating activities. The Company periodically reviews the activities performed on its mineral properties and makes estimates of closure, reclamation and remediation work that will need to be performed as required by those laws and regulations and makes estimates of amounts that are expected to be incurred when the closure, reclamation and remediation work is expected to be performed.

**Clifton Mining Company**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Future closure, reclamation and environmental related expenditures are difficult to estimate in many circumstances due to the early stages of investigation, uncertainties associated with defining the nature and extent of environmental contamination, the uncertainties relating to specific reclamation and remediation methods and costs, application and changing of environmental laws, regulations and interpretation by regulatory authorities and the possible participation of other potentially responsible parties.

Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either timing or amount of reclamation and abandonment costs. The Company has estimated costs associated with closure, reclamation and environmental reclamation of its properties which have been reflected in its financial statements in accordance with generally accepted accounting principles. See (Note 4) for a related discussion.

Revenue Recognition

We recognize revenue when the Company's milling equipment is used to process independently owned ore and the subsequent concentrate has been delivered to a refinery and a reasonable estimate of the value of the concentrate has been determined.

Advertising Costs

Advertising costs are charged to general and administrative expenses when incurred.

Income Taxes

We recognize deferred income tax assets or liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements or income tax returns. Deferred income tax assets or liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to apply when the differences are expected to be settled or realized. Deferred income tax assets are reviewed periodically for recoverability and valuation allowances are provided as necessary.

We classify penalties and interest as income taxes as allowed by ASC 740-10, "Accounting for Uncertainty in Income Taxes." The Company recognizes tax benefits from uncertain positions if it is "more likely than not" that the position is sustainable, based upon its technical merits. The initial measurement of the tax benefit is the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information.

Impairment of Long-Lived Assets

Management reviews the net carrying value of all property and equipment and other long-lived assets, including mineral properties, on a periodic basis. We estimate the net realizable value of an asset based on the estimated undiscounted future cash flows that will be generated from operations at each property, the estimated salvage value of the surface plant and equipment and the value associated with property interests. These estimates of undiscounted future cash flows are dependent upon the estimates of metal to be recovered from proven and probable ore reserves, future production cost estimates and future metal price estimates over the estimated remaining life of the mineral property. If undiscounted cash flows are less than the carrying value of a property, an impairment loss will be recognized based upon the estimated expected future cash flows from the property discounted at an interest rate commensurate with the risk involved.

**Clifton Mining Company**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's estimates of metal prices, recoverable proven and probable ore reserves, and operating, capital and reclamation costs are subject to risks and uncertainties of change affecting the recoverability of our investment in various projects. Although management believes it has made a reasonable estimate of these factors based on current conditions and information, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimate of net cash flows expected to be generated from our mineral properties and the need for asset impairment write-downs.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles 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. Actual results could differ from those estimates.

Earnings Per Share

Basic and diluted earnings per share are calculated in accordance with ASC 260, "Earnings Per Share". Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised resulting in the issuance of common stock of the Company.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist primarily of cash in bank. At times throughout the year, the Company may maintain certain bank accounts in excess of FDIC insured limits.

NOTE 2 – EQUITY INVESTMENT IN AFFILIATE

The Company owned a 21.0% and 21.3% interest in American Silver, LLC (the "Affiliate"), at December 31, 2011 and 2010, respectively. Accordingly, the Company is accounting for this investment, using the equity method under which the Company's share of the net income (loss) of the affiliate is recognized as income (loss) in the Company's income statement and added to or deducted from the investment account.

Dividends received from the Affiliate are treated as a reduction of the investment account. In addition, the Company's ownership interest in the Affiliate changes as the Affiliate obtains additional equity funding. When the Affiliate issues shares through equity funding the Company recognizes a gain or loss in the same manner as if the Company had sold a portion of its investment. The gain or loss is measured by comparing the change in the difference between the carrying amount of the investment and the Company's proportionate share of the net assets of the Affiliate after the sale of shares. American Silver, LLC owns 100% of American Biotech Labs, LLC, ABL Manufacturing, LLC, ABL Medical, LLC and ABL International, LLC. Their products are sold throughout the world in the wound dressing market, the dietary supplement market, the disinfectant market for surface disinfection and dental waterlines, and under the cosmetic act for natural skin care.

**Clifton Mining Company**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 2 - EQUITY INVESTMENT IN AFFILIATE (continued)

Dividends received from American Silver, LLC during 2011 and 2010 amounted to \$221,608 and \$16,910, respectively. The Company's recognized investment in American Silver, LLC for the years ending December 31, 2011 and 2010 is \$781,111 and \$592,299, respectively. As the Affiliate continues to obtain additional equity investment and has income or losses, the investment balance will continue to reflect those changes.

Condensed financial information of American Silver, LLC as of and for the years ended December 31, 2011 and 2010 is as follows:

| <u>Assets</u>   | <u>2011</u>         | <u>2010</u>         |
|---|---------------------|---------------------|
| Current assets:   |                     |                     |
| Cash  | \$ 1,749,957        | \$ 1,308,313        |
| Account receivables                                       | 655,030             | 539,723             |
| Other current assets (prepaid expenses, inventory)        | 777,422             | 621,211             |
| Total current assets                                      | <u>3,182,409</u>    | <u>2,469,247</u>    |
| <br>Equipment: less accumulated depreciation              | <br>1,102,342       | <br>299,657         |
| <br>Other Assets  | <br>649,713         | <br>704,585         |
| Total Assets  | <u>\$ 4,934,464</u> | <u>\$ 3,473,489</u> |
| <br><u>Liabilities and Members' Equity</u>                |                     |                     |
| Current liabilities:                                      |                     |                     |
| Accounts payable, current portion and accrued liabilities | \$ 534,627          | \$ 696,276          |
| Note payable less current portion                         | 683,670             | -                   |
| Members' equity   | 3,716,167           | 2,777,213           |
| Total Liabilities and Members' Equity                     | <u>\$ 4,934,464</u> | <u>\$ 3,473,489</u> |
| <br><u>Statements of Operations</u>                       |                     |                     |
| Net sales   | \$ 8,216,508        | \$ 7,587,318        |
| Gross profit  | 5,897,856           | 5,660,450           |
| Selling, general and administrative expenses              | (4,910,225)         | (5,613,820)         |
| Other income  | 20,544              | 3,486               |
| Net income (loss)   | <u>\$ 1,008,175</u> | <u>\$ 50,116</u>    |

American Silver, LLC owns 100% of American Biotech Labs, LLC, ABL Manufacturing, LLC, ABL Medical, LLC and ABL International, LLC. American Biotech Labs, LLC ("ABL") markets and sells products for the dietary supplement and cosmetic markets, which are distributed through health food stores, health care providers, nutritional supplement distributors and other companies throughout the world. ABL also markets and sells product throughout the U.S. that is approved by the US EPA as an effective broad spectrum disinfectant and bacteriostat against odor-causing bacteria in dental unit water lines. ABL Manufacturing, LLC manufactures products using a patented process. ABL Medical, LLC has recently launched the marketing and selling of approved wound dressing medical device products under FDA Section 510(k).

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**For the Years Ended December 31, 2011 and 2010**

**NOTE 3 - MINERAL PROPERTIES**

At December 31, 2011, the Company's mining claims consist of 38 patented claims including 10 patented claims owned 50% by The Woodman Mining Company ("Woodman Mining"), 352 unpatented lode claims, 32 placer claims, and seven (7) state mineral leases, in total covering approximately 12,400 acres. The properties are located in the Gold Hill/Clifton Mining District, Tooele County, Northwest Utah area.

On July 24, 2009, the Company entered into a Mining Venture Agreement in which the Company and Woodman Mining granted to Desert Hawk Gold Corp. ("Desert Hawk") exclusive possession of the properties for exploration, development and mining, and the right to occupy the properties and to explore, develop and mine the properties for minerals, for which Desert Hawk paid \$250,000 for this right and issued 500,000 of Desert Hawk common shares to the Company in addition to the granting of various net smelter royalties. Desert Hawk has been granted a 20 year lease subject to certain terms and conditions and it has no ownership interest in the Company properties. Desert Hawk issued an additional 60,824 of its common shares to the Company in exchange for the transfer of the reclamation bond posted for the Company's mill site. The total value of cash and shares received from the transactions was \$636,265.

During 2011, the mill was in operation concentrating ore. A total of \$28,494 and \$0 in revenue was recorded for the years ending December 31, 2011 and 2010.

The acquisition costs of the mineral properties in the schedule below are stated at or below the market value and are not to exceed the original purchase price. Mineral properties consist of the following:

|  |                       |                       |
|--|-----------------------|-----------------------|
|  | <u>2011</u>           | <u>2010</u>           |
| Acquisition costs                                | \$ 905,938            | \$ 905,938            |
| Asset retirement obligation – mineral properties | 16,006                | 16,006                |
| Land   | <u>2,500</u>          | <u>2,500</u>          |
| <br>Total  | <br><u>\$ 924,444</u> | <br><u>\$ 924,444</u> |

A study prepared by Behre Dolbear & Company, Inc. dated April 1996 and updated October 2000 by Robert Cameron, Consulting reported the following mineralized material for the Clifton shear zone:

| Category      | Tons           | Ag (opt)    | Ag (ounces)      | Au (opt)     | Au (ounces)   | Pb(%)       |
|---------------|----------------|-------------|------------------|--------------|---------------|-------------|
| Measured (1)  | 107,000        | 8.41        | 901,597          | 0.045        | 4,802         | 5.09        |
| Indicated (2) | <u>473,000</u> | <u>8.15</u> | <u>3,905,133</u> | <u>0.051</u> | <u>21,824</u> | <u>5.22</u> |
| Total         | <u>580,000</u> | <u>8.05</u> | <u>4,806,730</u> | <u>0.050</u> | <u>26,626</u> | <u>5.20</u> |

Notes:

- (1) Measured Resources are those materials for which tonnage is computed from dimensions revealed in outcrops or mine workings and/or drill holes and for which the grade is computed from the results of adequate sampling. The sites for inspection, sampling and measurement are so spaced and the geological character is so well defined that the size, shape and mineral content are established.
- (2) Indicated Resources are those materials for which tonnage and grade are computed partly from specific measurements, samples, or production data, and partly from projections for a reasonable distance on geological evidence. The sites available for inspection, measurement, and sampling, are too widely or otherwise inappropriately spaced to outline the material completely or to establish its grade throughout.

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NOTE 3 - MINERAL PROPERTIES (continued)

Behre Dolbear qualified the mineralized material estimate as follows: The majority of the surface samples were collected from old, shallow prospecting pits that occurred at irregular spacing; the underground samples were taken from only readily accessible locations in old mines; and the sampling technique may have biased the Clifton data.

NOTE 4 – RECLAMATION AND REMEDIATION LIABILITIES

Federal, state and local laws and regulations concerning environmental protection affect the Company's operations. Under current regulations, the Company is required to meet performance standards to minimize environmental impact from operations and to perform site reclamation and remediation activities. The Company's provisions for reclamation and remediation liabilities are based on known requirements. It is not possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

The following table sets out the activity for the Company's reclamation and remediation liabilities for the years ending December 31, 2011 and 2010.

|                 | December 31,<br>2011 | December 31,<br>2010 |
|-----------------|----------------------|----------------------|
| Opening Balance | \$ 29,035            | \$ 27,356            |
| Accretion       | 1,781                | 1,679                |
| Ending Balance  | <u>\$ 30,816</u>     | <u>\$ 29,035</u>     |

The Company believes that the reclamation obligations incurred by the exploration work being performed by Desert Hawk are adequately provided for in the current reclamation estimates should Desert Hawk fail to complete its reclamation obligations as of December 31, 2011. Desert Hawk, on an ongoing basis, is required to obtain permits and post reclamation bonds and reclaim any disturbances caused by the exploration work. Desert Hawk has posted reclamation bonds for the mill buildings and mill site. The Company has completed all known required reclamation requirements to date and currently has bonding posted for all of its exploration work including road development.

NOTE 5 – EQUIPMENT AND PATENT

Buildings and equipment, less accumulated depreciation as of December 31, 2011 and 2010 consisted of the following:

| <u>2011</u>                             | <u>Cost</u>         | <u>Accumulated<br/>Depreciation</u> | <u>Net Book<br/>Value</u> |
|---|---------------------|-------------------------------------|---------------------------|
| Buildings                               | \$ 347,886          | \$ (131,902)                        | \$ 215,984                |
| Asset retirement obligation - buildings | 21,536              | (6,073)                             | 15,463                    |
| Total                                   | <u>\$ 369,422</u>   | <u>\$ (137,975)</u>                 | <u>\$ 231,447</u>         |
| Mill Equipment                          | <u>\$ 1,019,827</u> | <u>\$ (275,387)</u>                 | <u>\$ 744,440</u>         |
| Equipment:                              |                     |                                     |                           |
| Machinery and equipment                 | \$ 138,490          | \$ (138,490)                        | \$ -                      |
| Vehicles                                | 11,539              | (11,539)                            | -                         |
| Office equipment and fixtures           | 10,800              | (9,962)                             | 838                       |
| Total                                   | <u>\$ 160,829</u>   | <u>\$ (159,991)</u>                 | <u>\$ 838</u>             |

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NOTE 5 – EQUIPMENT AND PATENT (continued)

|   |                     |                                     |                           |
|---|---------------------|-------------------------------------|---------------------------|
| Patent                                  | \$ <u>29,624</u>    | \$ <u>(1,800)</u>                   | \$ <u>27,824</u>          |
| <u>2010</u>                             | <u>Cost</u>         | <u>Accumulated<br/>Depreciation</u> | <u>Net Book<br/>Value</u> |
| Buildings                               | \$ 347,886          | \$ (122,982)                        | \$ 224,904                |
| Asset retirement obligation - buildings | 21,536              | (5,521)                             | 16,015                    |
| Total                                   | <u>\$ 369,422</u>   | <u>\$ (128,503)</u>                 | <u>\$ 240,919</u>         |
| Mill Equipment                          | \$ <u>1,008,392</u> | \$ <u>(236,062)</u>                 | \$ <u>772,330</u>         |
| Equipment:                              |                     |                                     |                           |
| Machinery and equipment                 | \$ 138,490          | \$ (136,934)                        | \$ 1,556                  |
| Vehicles                                | 11,539              | (11,539)                            | -                         |
| Office equipment and fixtures           | 10,800              | (9,646)                             | 1,154                     |
| Total                                   | <u>\$ 160,829</u>   | <u>\$ (158,119)</u>                 | <u>\$ 2,710</u>           |
| Patent                                  | \$ <u>29,695</u>    | \$ <u>(71)</u>                      | \$ <u>29,624</u>          |

The amount of patent amortization expense for each of the next five years will be approximately \$1,800 per year. Total patent amortization expense for the years ending December 31, 2011 and 2010 totals \$1,800 and \$71, respectively.

NOTE 6 - CAPITAL STOCK

Our authorized capital stock consists of 70,000,000 shares of common stock, par value \$0.001 per share and 10,000,000 shares of preferred stock, par value \$0.001 per share, of which 251,918 have been designated as 1993 Series Preferred A Stock. As of December 31, 2011 and 2010 there were 56,011,606 and 55,711,606 respectively of common stock outstanding and there were 154,584 and 154,584 respectively of 1993 Series Preferred A Stock outstanding. The Company issued 300,000 and 1,964,144 shares of common stock during 2011 and 2010 respectively, for \$0 and \$262,086. There were 32,000 1993 Series Preferred A Stock converted to common stock during 2010.

The 1993 Preferred is voted with the common stock of the Company as a single class and is not entitled to vote as a separate class, except to the extent that the consent of the holders of the 1993 Preferred, voting as a class, is specifically required by the provisions of the corporation laws of the state of Utah, as now existing or as hereafter amended. Each holder of 1993 Preferred is entitled to such number of votes in respect of each share of such stock held by him or her that would be appurtenant to the common stock issuable upon conversion in respect of such stock. Subject to adjustment upon the happening of certain events, the 1993 Preferred is convertible into common stock on a one-for-one basis. The 1993 Preferred may be converted at the option of the holder at any time.

The 1993 Preferred is automatically convertible into common stock upon the happening of any of the following events: (1) the date of effectiveness of a registration statement under the Securities Act of 1933, as amended, (the "Securities Act") or any successor statute, which covers the resale of common stock issuable on the conversion of the 1993 Preferred, (2) the date of effectiveness of a registration statement under the Securities Act, for a firmly underwritten offering of common stock which will provide gross proceeds to the Company of \$5,000,000 or more, (3) the date on which the Company has received gross proceeds of at least \$5,000,000 pursuant to a best-efforts offering of common stock

**Clifton Mining Company**  
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NOTE 6 - CAPITAL STOCK (continued)

which was registered pursuant to the Securities Act, or (4) the date on which the Board causes a notice to be sent, by first class mail to the latest known address as shown on the Company's records, to the holders of 1993 Preferred which accurately states that: (a) the Company has successfully completed two consecutive fiscal years in which it has shown in each year a net profit before taxes (excluding nonrecurring and extraordinary items), (b) such net profit is shown on the Company's regular books and records of account and (c) the aggregate amount of the two-year period net profit equals or exceeds \$5,000,000.

NOTE 7 - STOCK OPTIONS

The Company has adopted a stock option plan. Under the plan, options or stock awards may be granted to employees, including officers, of the Company and to other individuals who are not employees of the Company as may be deemed in the best interest of the Company by the board of directors or duly authorized committee.

The plan makes available 10% of the outstanding shares for grants. Options granted under this plan shall have a term established by the board of directors, but in no event will the term exceed five years. The exercise price of each option is to be determined by the board of directors on the date of grant. All options granted to date are for a stated term of five years or less.

Information regarding the option plan is summarized as follows:

| Date granted      | Weighted average price per share | Outstanding At January 1, 2010 | Granted   | Exercised | Expired/forfeited | Outstanding At December 31, 2010 |
|-------------------|----------------------------------|--------------------------------|-----------|-----------|-------------------|----------------------------------|
| February 8, 2006  | 1.06                             | 750,000                        | -         | -         | -                 | 750,000                          |
| January 11, 2007  | 0.57                             | 730,000                        | -         | -         | -                 | 730,000                          |
| January 11, 2008  | 0.35                             | 1,140,000                      | -         | -         | -                 | 1,140,000                        |
| February 10, 2009 | 0.08                             | 2,085,000                      | -         | -         | -                 | 2,085,000                        |
| January 19, 2010  | 0.22                             | -                              | 1,250,000 | -         | -                 | 1,250,000                        |
| Total options     | \$ 0.34                          | 4,705,000                      | 1,250,000 | -         | -                 | 5,955,000                        |

Exercisable December 31, 2010

4,705,000

| Date granted      | Weighted Average Price per share | Outstanding At January 1, 2011 | Granted   | Exercised | Expired/forfeited | Outstanding At December 31, 2011 |
|-------------------|----------------------------------|--------------------------------|-----------|-----------|-------------------|----------------------------------|
| February 8, 2006  | 1.06                             | 750,000                        | -         | -         | (750,000)         | -                                |
| January 11, 2007  | 0.57                             | 730,000                        | -         | -         | -                 | 730,000                          |
| January 11, 2008  | 0.35                             | 1,140,000                      | -         | -         | -                 | 1,140,000                        |
| February 10, 2009 | 0.08                             | 2,085,000                      | -         | -         | -                 | 2,085,000                        |
| January 19, 2010  | 0.22                             | 1,250,000                      | -         | -         | -                 | 1,250,000                        |
| February 23, 2011 | 0.32                             | -                              | 1,040,000 | -         | -                 | 1,040,000                        |
| Total options     | \$ 0.25                          | 5,955,000                      | 1,040,000 | -         | (750,000)         | 6,245,000                        |

Exercisable December 31, 2011

5,955,000

**Clifton Mining Company**  
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NOTE 7 - STOCK OPTIONS (continued)

The valuation for stock based compensation expense recognized for the years ended December 31, 2011 and 2010 was \$209,605 and \$173,608 related to employee stock options issued during the respective periods. The valuation for stock based compensation expense assumes all awards will vest, therefore no reduction has been made for estimated forfeitures.

The following assumptions were made in estimating fair value for the options issued in 2011 and 2010.

|                         |             |             |
|-------------------------|-------------|-------------|
|                         | <u>2011</u> | <u>2010</u> |
| Risk-free interest rate | 2.21%       | 2.48%       |
| Expected life           | 5 years     | 5 years     |
| Expected volatility     | 79%         | 83%         |

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company entered into a net profits interest agreement with two shareholders of the Company in 1995. Under the terms of the agreement, the Company will pay 25% of the "net profits" from mining production up to a maximum payout of \$1,500,000 at which time the payment obligation will cease. "Net profits" is defined as being the remaining amount of income from the sale of ores and minerals after all operating, reclamation, general and administrative, and development expenses have been paid. To date there have been no payments made pursuant to this agreement.

Effective July 24, 2009, the Company entered into an Amended and Restated Lease and Sublease Agreement in which the Company and Woodman Mining granted to Desert Hawk exclusive possession of the Properties for exploration, development and mining, and the right to occupy the Properties and to explore, develop and mine the Properties for minerals.

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values and estimated fair values of the Company's financial instruments according to the hierarchy based on the three levels of inputs for the periods are presented as follows:

December 31, 2011

| Financial Assets:            | Carrying<br>Value | (Level 1)     | (Level 2)         | (Level 3)   |
|------------------------------|-------------------|---------------|-------------------|-------------|
| Cash and cash equivalents    | \$ 62,909         | 62,909        | \$ -              | \$ -        |
| Marketable securities        | 29,924            | 29,924        | -                 | -           |
| Cost investment in affiliate | 392,577           | -             | 392,577           | -           |
| Total                        | <u>\$ 485,410</u> | <u>92,833</u> | <u>\$ 392,577</u> | <u>\$ -</u> |

December 31, 2010

| Financial Assets:            | Carrying<br>Value | (Level 1)      | (Level 2)         | (Level 3)   |
|------------------------------|-------------------|----------------|-------------------|-------------|
| Cash and cash equivalents    | \$ 118,196        | 118,196        | \$ -              | \$ -        |
| Marketable securities        | 10,501            | 10,501         | -                 | -           |
| Cost investment in affiliate | 392,577           | -              | 392,577           | -           |
| Total                        | <u>\$ 521,274</u> | <u>128,697</u> | <u>\$ 392,577</u> | <u>\$ -</u> |

**Clifton Mining Company**  
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NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

**Level 1** - The Company's Level 1 assets consist of cash, cash equivalents, and marketable securities as quoted in active markets.

**Level 2** - The Company's Level 2 assets consisted of the cost of the investment in an affiliate by observable market data from other share placements made by affiliate during the current period.

**Level 3** - The Company had no investments which were considered to be Level 3 assets.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Company shares office space with American Biotech Labs, LLC and incurs rent and ancillary charges in connection with this arrangement. The Company incurred \$24,900 and \$14,525 of such costs which were charged to operations in each year for 2011 and 2010, respectively. The unconsolidated affiliate American Silver, LLC, is considered to be a related party due to several of the Company's management and board members have similar positions with the affiliate. The Company has recorded accrued wages to officers and directors of the Company. The total amount due to these individuals as December 31, 2011 and 2010 total \$239,518 and \$43,411, respectively.

NOTE 11 – INCOME TAXES

Effective January 1, 2007, the Company adopted the provisions of ASC 740-10, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. ASC 740-10 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position.

Interpretations of and guidance surrounding income tax laws and regulations change over time. As such, changes in the subjective assumptions and judgments can materially affect amounts recognized in the balance sheets and statements of income.

At the adoption date of January 1, 2007, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized. There has been no significant change in the unrecognized tax benefit during the years ended December 31, 2011 and 2010.

The Company classifies interest and penalties arising from the underpayment of income taxes in the statement of income under general and administrative expenses. As of December 31, 2011, we had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the US federal jurisdiction and one State jurisdiction. The Company is no longer subject to federal and state income tax examinations for the years prior to 2007.

At December 31, 2011, the Company has net operating loss carry-forwards available to offset future taxable income of approximately \$9,113,300. The utilization of the net operating loss carry-forwards is dependent upon the tax laws in effect at the time the net carry-forwards can be utilized. The Internal Revenue Code contains provisions that likely could reduce or limit the availability and utilization of these net operating loss carry-forwards. For example, limitations are imposed on the utilization of net operating loss carry-forwards if certain ownership changes have taken place. The Company will perform an analysis to determine whether any such limitations have occurred as the net operating losses are utilized. The amount of, and ultimate realization of, the benefits from the net operating losses is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which cannot

**Clifton Mining Company**  
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NOTE 11 – INCOME TAXES (continued)

be determined. The Company has established a valuation allowance for all deferred income tax assets not offset by deferred income tax liabilities due to the uncertainty of their realization. Accordingly, there is no benefit for income taxes in the accompanying consolidated statements of operations.

Deferred income taxes are determined based on the estimated future effects of differences between the financial statement and income tax reporting bases of assets and liabilities given the provisions of currently enacted tax laws and the tax rates expected to be in place.

The deferred income tax assets (liabilities) are comprised of the following calculated at an expected U.S. Federal Statutory tax rate of 34% at December 31, 2011 and December 31, 2010:

|                                     | December 31,<br>2011 | December 31,<br>2010 |
|-------------------------------------|----------------------|----------------------|
| Deferred tax assets:                |                      |                      |
| NOL Carryover                       | \$ 3,098,500         | \$ 3,187,291         |
| Impairment of marketable securities | -                    | -                    |
| Accrued compensation                | 81,400               | 14,760               |
| Value allowance                     | <u>(3,179,900)</u>   | <u>(3,202,051)</u>   |
| Net deferred tax asset              | <u>\$ -</u>          | <u>\$ -</u>          |

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax loss for the years ended December 31, 2011 and 2010 due to the following:

|  | 2011             | 2010             |
|--|------------------|------------------|
| Federal income tax benefit at statutory rate | \$ (155,200)     | \$ (165,349)     |
| Depreciation                                 | -                | -                |
| Meals & entertainment                        | 300              | 73               |
| Accretion                                    | 600              | 571              |
| Unrealized loss from equity investment       | 2,400            | 49,032           |
| Depreciation of subsidiary                   | -                | 530              |
| Stock based compensation                     | 103,900          | 59,027           |
| NOL carryover                                | (18,700)         | -                |
| Expired NOL                                  | 169,200          | 191,048          |
| Accrued compensation - related party         | 66,700           | -                |
| Valuation allowance                          | <u>(169,200)</u> | <u>(134,932)</u> |
| Income tax benefit for fiscal year           | <u>\$ -</u>      | <u>\$ -</u>      |

NOTE 12 - NEW ACCOUNTING PRONOUNCEMENTS

This ASU supersedes most of the guidance in Topic 820, although many of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. In addition, certain amendments in ASU 2011-04 change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The amendments in ASU 2011-04 are effective for public entities for interim and annual periods beginning after December 15, 2011.

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NOTE 12 - NEW ACCOUNTING PRONOUNCEMENTS (continued)

This ASU requires all nonowner changes in stockholders' equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. However, ASU 2011-12 has deferred the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. Entities should continue to report reclassifications out of accumulated comprehensive income consistent with the presentation requirements in effect before ASU 2011-05.

NOTE 13 – SUBSEQUENT EVENTS

In February 2012, under the Company's 2004 Stock Option Plan, the board of directors authorized the granting of options to officers and directors of the Company a purchase a total of 1,140,000 shares of the Company's common stock at \$0.27 per share. The options have a term of five years with the shares vesting on February 28, 2013.

The Company has received \$165,000 from investors during March 2012 for 825,000 shares of common stock. The Company also has one other signed subscription document which will raise an additional \$20,000. The subscription agreement will require the Company to issue 100,000 shares of common stock.

On March 14, 2012 the Company received a distribution of \$0.13 per member unit from its equity investment in affiliate, American Silver, LLC. The total distribution received was \$198,250.

The Company has evaluated subsequent events under the provisions of ASC 855. Based upon this evaluation, we have determined that no material subsequent events occurred that require recognition or disclosure in the financial statements other than those already disclosed above.