



MARCH 31, 2012
INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars, unless otherwise stated)

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Notice of no auditor review of interim financial statements:

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by, and are the responsibility of, the Company's management. The Company's independent auditor has not performed a review of these financial statements.



INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 (Expressed in United States Dollars)

As at	Note	March 31, 2012	December 31, 2011
ASSETS			
Current			
Cash		\$ 1,188,421	\$ 1,926,624
Accounts receivable		576,401	211,349
Prepaid expenses		30,470	29,887
		1,795,292	2,167,860
Investment in Back Forty Joint Venture LLC	4	27,572,849	-
Mineral property costs	5	3,175,121	30,347,560
Security deposits	5(a)	166,111	166,111
Capital assets	6	864,117	868,617
		\$ 33,573,490	\$ 33,550,148
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 331,473	\$ 62,337
Advances for work to be performed	5(b)	229,903	250,000
		561,376	312,337
SHAREHOLDERS' EQUITY			
Share capital	7(a)	42,430,879	42,333,037
Contributed surplus		5,350,797	5,351,640
Warrants	8	199,778	199,778
Deficit		(14,969,340)	(14,646,644)
		33,012,114	33,237,811
		\$ 33,573,490	\$ 33,550,148

Nature of operations (Note 1)

Commitments (Note 5)

Subsequent Event (Note 13)

Approved on behalf of the Board on May 14, 2012

'Edward J. Munden' Director

'Robin Dunbar' Director



INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Expressed in United States Dollars)

	Note	For the Three Months Ended March 31,	
		2012	2011
Expenses			
Depreciation		\$ 4,500	\$ 4,584
Consulting fees		12,013	33,976
Director's fees	9	10,924	11,789
Filing and regulatory fees		50,828	34,818
Foreign exchange (gain) loss		(31,257)	(239,454)
Interest and bank charges		1,809	1,558
Mineral property recovery, net of write-off		21,703	3,552
Management fees	9	16,818	17,039
Office, general and admin		14,251	19,556
Professional fees		55,042	67,301
Rent		6,554	3,651
Salaries and benefits		111,648	157,356
Share-based compensation	7(b)	-	1,363,681
Travel and promotion		48,362	43,433
		323,196	1,522,840
Interest and other income		(500)	(1,540)
Net loss and comprehensive loss for the year		\$ 322,696	\$ 1,521,300
Loss per common share			
Basic and diluted loss per share		\$ 0.00	\$ 0.01
Weighted average number of common shares outstanding		90,750,097	82,942,721



**INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY**
(Expressed in United States Dollars)

	Share Capital		Contributed Surplus	Warrants	Accumulated Deficit	Total
	Shares	Amount				
Balance, December 31, 2010	82,656,711	\$ 37,277,999	\$ 4,760,497	\$ -	\$ (12,175,806)	\$ 29,862,690
Proceeds on exercise of options	113,625	33,061	-	-	-	33,061
Fair value of options exercised	-	64,144	(64,144)	-	-	-
Share-based compensation	-	-	1,363,681	-	-	1,363,681
Private placement	2,226,514	2,000,000	-	-	-	2,000,000
Net loss	-	-	-	-	(1,521,300)	(1,521,300)
Balance, March 31, 2011	84,996,850	\$ 39,375,204	\$ 6,060,034	\$ -	\$ (13,697,106)	\$ 31,738,132
Balance, December 31, 2011	90,739,168	\$ 42,333,037	\$ 5,351,640	\$ 199,778	\$ (14,646,644)	\$ 33,237,811
Proceeds on exercise of options (Note 7(a))	6,000	893	-	-	-	893
Fair value of options exercised	-	843	(843)	-	-	-
Shares issued under a property agreement (Note 7(a))	200,000	96,106	-	-	-	96,106
Net loss	-	-	-	-	(322,696)	(322,696)
Balance, March 31, 2012	90,945,168	\$ 42,430,879	\$ 5,350,797	\$ 199,778	\$ (14,969,340)	\$ 33,012,114



INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Expressed in United States Dollars, unless otherwise stated)

	For the Three Months Ended December 31,	
	2012	2011
Cash flows from operating activities		
Net loss for the period	\$ (322,696)	\$ (1,521,300)
Adjustment for:		
Depreciation	4,500	4,584
Stock-based compensation	-	1,363,681
	(318,196)	(153,035)
Changes in non-cash working capital (Note 10)	(116,596)	(1,095,374)
Cash flows used in operating activities	(434,792)	(1,248,409)
Cash flows from investing activities		
Increase in mineral properties	(304,304)	(309,076)
Proceeds on sale of capital assets	-	545
Cash flows used in investing activities	(304,304)	(308,531)
Cash flows from financing activities		
Issuance of common shares	893	2,033,061
Cash flows provided from financing activities	893	2,033,061
Net increase (decrease) in cash	(738,203)	476,121
Cash beginning of period	1,926,624	950,662
Cash end of period	\$ 1,188,421	\$ 1,426,783



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

1. Nature of Operations:

Aquila Resources Inc. (the "Company") was incorporated under the Business Corporations Act ("Canada") and is involved in the mineral exploration business. The Company's head office address is 65 Queen Street West, Suite 530, Toronto Canada, M5H 2M5.

The Company is listed on the Toronto Stock Exchange ("TSX") and is in the business of exploring for and developing mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date the Company has not earned significant revenues.

The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

2. Basis of Presentation:

These interim unaudited condensed consolidated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"). IFRS represents standards and interpretations approved by the International Accounting Standards Board ("IASB"), and are comprised of IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") or the former Standing Interpretations Committee ("SICs").

3. Significant Accounting Policies:

These interim unaudited condensed consolidated financial statements are expressed in US Dollars, except those amounts denoted CDN\$ which are in Canadian Dollars.

The IASB continues to amend and add to current IFRS standards and interpretations with several projects underway. The significant accounting policies used in the preparation of these interim unaudited condensed consolidated financial statements are as follows:

Translation of foreign currencies:

These interim unaudited condensed consolidated financial statements are presented in US dollars, which is the functional and presentation currency of the Company. Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing date exchange rate, and non-monetary assets and liabilities at the historical rates. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period are recognized in profit or loss.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

3. Significant Accounting Policies: (Cont'd)

Basis of measurement:

These interim unaudited condensed consolidated financial statements have been prepared on a historical cost basis except items classified at Fair Value Through Profit or Loss. In addition, these interim unaudited condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All items were initially recorded at fair value.

Principles of consolidation:

These interim unaudited condensed consolidated financial statements include the accounts of the Company and all of its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposal or loss of control. The Company's principal subsidiary, Aquila Resources USA Inc., is located in Michigan USA. All inter-company balances and transactions have been eliminated.

Use of estimates:

The most significant estimates in these financial statements relate to mineral property costs, the recoverability of the carrying value of the mineral properties, the valuation of reclamation provisions, share-based compensation, income taxes and determination of the functional currency. Estimates are then based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could be materially different from these estimates.

Impairment:

The carrying amounts of the Company's long-lived assets are reviewed at each reporting date to determine whether there is any indication of impairment. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the group of assets so determined is referred to as a cash-generating unit, or "CGU").

Impairment exists when the carrying amount of the asset, or CGU, exceeds its recoverable amount. The impairment loss is the amount by which the carrying value exceeds the recoverable amount and such loss is recognized in the consolidated statement of comprehensive loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized such that the recoverable amount has increased.

Deferred mineral property costs:

All costs incurred prior to obtaining the rights to explore a mineral property are expensed. Subsequent to obtaining the rights to explore its mineral properties the Company capitalizes all costs, net of any recoveries, during the evaluation and exploration and development stages. These costs will be amortized on the



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

3. Significant Accounting Policies: (Cont'd)

units-of-production basis over the estimated useful life of the properties following commencement of production or written-off if the properties are sold, allowed to lapse, or abandoned.

Cost includes the cash consideration paid and the fair market value of any common shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The recorded cost of mineral claims and deferred exploration and development costs represent costs incurred and are not intended to reflect present or future values.

The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for, and amount of, any write down.

The Company reviews capitalized costs on its property interests on a periodic, or annual, basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review and the assessment of the ability to recover capitalized costs based on technical, social and environmental issues.

Administrative costs are expensed as incurred.

The proceeds of options granted on a mining property are recorded as a reduction of the amounts recorded for mineral property costs and amounts exceeding cost are recorded as income.

Property option agreements:

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are typically exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

Capital assets:

Capital assets consist of land and buildings, furniture fixtures and equipment which are initially recorded at cost. Depreciation is recorded using the following rates and methods:

Buildings	4%	Declining balance
Furniture, fixtures and equipment	20%	Declining balance

Depreciation on additions commences when assets are available for use.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

3. Significant Accounting Policies: (Cont'd)

Decommissioning, restoration and similar liabilities

The Company recognizes provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for decommissioning costs is recognized at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Upon initial recognition of the liability, the corresponding decommissioning cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the decommissioning costs, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

The Company has no material decommissioning, restoration and similar liabilities as the disturbance to date is immaterial.

Revenue recognition:

Interest income is recognized on an accrual basis as it is earned.

Income taxes:

The Company accounts for and measures deferred tax assets and liabilities in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using the enacted or substantially-enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Share-based compensation:

The Company has a stock option plan, which is described in Note 7(b). The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock-option at the date of grant. Stock options that vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related services and non-market vesting conditions are met. Stock option compensation is recognized as an expense with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

3. Significant Accounting Policies: (Cont'd)

Share-based compensation: (Cont'd)

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Basic and diluted loss per share:

The Company presents basic and diluted loss per share data for its common shares. Dilution is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise convertible warrants and share options granted to directors, officers, employees, consultants and other service providers of the Company.

Financial instruments:

Assets or liabilities at fair value through profit or loss ("FVTPL")

Financial instruments classified as FVTPL assets or liabilities are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income (loss) in the period which the change occurs.

Held-to-maturity investments, loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables, held-to-maturity investments and other financial liabilities are carried at amortized cost using the effective interest method. Interest income or expenses is included in net income (loss) over the expected life of the instrument.

Available-for-sale securities

Securities classified in the "Available-for-sale securities" category are non-derivative financial assets that are initially designated as available for sale or that are not classified in the "At fair value through profit or loss", "Held to maturity" or "Loans and receivables" categories. Available-for-sale securities can be sold further to or in view of fluctuations in interest rates, exchange rates, prices of equity instruments or changes in financing sources or terms, or to meet the liquidity needs of the Company.

Gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Consolidated Statements of Comprehensive Loss under "Net unrealized gains on available-for-sale securities" until the financial asset is derecognized. Premiums and discounts on the purchase of available-for-sale securities are amortized over the life of the security using the effective interest method and recognized in combined profit or loss.

Classification of financial instruments:

The Company designates its cash and security deposits as FVTPL, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and advances for work to be performed are classified as other financial liabilities which are measured at amortized cost. Cash, accounts receivable, accounts payable and accrued liabilities and advances for work to be performed: due to the short-term nature of these instruments, their carrying value approximates their fair value. The fair value of the security deposits approximates its carrying value due to its interest rate approximating market rates.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

3. Significant Accounting Policies: (Cont'd)

Comprehensive income:

Comprehensive income, composed of net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income ("OCI") includes unrealized gains and losses on available-for-sale securities, foreign currency translation adjustment and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income are disclosed in the statement of comprehensive income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a category in shareholders' equity. As at March 31, 2012 and December 31, 2011 no other comprehensive income has been recognized.

Future accounting changes:

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after March 31, 2012 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

- (i) IFRS 9 – Financial instruments ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.
- (ii) IFRS 10 – Consolidated financial statements ("IFRS 10") was issued by the IASB in May 2011. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity's returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.
- (iii) IFRS 11 – Joint arrangements ("IFRS 11") was issued by the IASB in May 2011. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets, and obligations for the liabilities, of an arrangement; and parties having rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the latter case account for the arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (iv) IFRS 12 – Disclosure of interests in other entities ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles, and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

3. Significant Accounting Policies: (Cont'd)

Future accounting changes: (Cont'd)

- (v) IFRS 13 – Fair value measurement (“IFRS 13”) was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRSs. The key points of IFRS 13 are as follows:
- fair value is measured using the price in a principal market for the asset or liability, or in the absence of a principal market, the most advantageous market;
 - financial assets and liabilities with offsetting positions in market risks or counter party credit risks can be measured on the basis of an entity’s net risk exposure;
 - disclosures regarding the fair value hierarchy has been moved from IFRS 7 to IFRS 13, and further guidance has been added to the determination of classes of assets and liabilities;
 - a quantitative sensitivity analysis must be provided for financial instruments measured at fair value;
 - a narrative must be provided discussing the sensitivity of fair value measurements categorized under Level 3 of the fair value hierarchy to significant unobservable inputs; and
 - information must be provided on an entity’s valuation processes for fair value measurements categorized under Level 3 of the fair value hierarchy.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

- (vi) IAS 1 – Presentation of financial statements (“IAS 1”) was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.
- (vii) IAS 27 – Consolidated and separate financial statements (“IAS 27”) was amended by the IASB in May 2011. Consolidation requirements forming part of IAS 27 have been revised and are now contained in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

4. Investment in Back Forty Joint Venture LLC:

The Company has a 49% interest in Back Forty Joint Venture LLC (“BFJV”) which was acquired as described in Note 5(a)(ii). The operation of BFJV is governed by an Operating Agreement (“Operating Agreement”) signed by the Company and HudBay via its wholly owned subsidiary HudBay Michigan Inc. The Operating Agreement governs the obligations and business relationship of both parties, and in all material respects mirrors the terms of the original HudBay Subscription, Option and Joint Venture Agreement described in Note 5(a).



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

4. Investment in Back Forty Joint Venture LLC: (Cont'd)

The Mineral property costs accumulated by the Company on the Back Forty Project up to the time it acquired the 49% interest in BFJV amounted to \$27,572,849, and that amount has been reflected as the Company's Investment in Back Forty Joint Venture LLC.

5. Mineral property costs:

Total accumulated deferred mineral property costs are detailed as follows:

Three months ended March 31, 2012	Balance beginning of year	Acquisition	Exploration	Reimbursements	Transfer to investment (see Notes 4 and 5 (a) (ii))	Balance end of period
Back Forty Project Exploration	\$27,575,599	\$ 24,861	\$ 6,744	\$ (34,355)	\$ (27,572,849)	\$ -
Alliance	-	97,235	645,918	(743,153)	-	-
Michigan Gold	1,505,076	107,000	943	-	-	1,613,019
Reef	1,086,238	19,504	234,425	-	-	1,340,167
Other	180,647	21,000	20,288	-	-	221,935
	\$30,347,560	\$ 269,599	\$ 908,318	\$ (777,508)	\$ (27,572,849)	\$ 3,175,121

Year ended December 31, 2011	Balance beginning of year	Acquisition	Exploration	Reimbursements	Re-allocation, Write-offs	Balance end of year
Back Forty Project Exploration	\$27,651,097	\$3,733,938	\$1,610,664	\$(5,505,452)	\$85,352	\$ 27,575,599
Alliance	-	74,004	899,033	(1,062,556)	89,519	-
Michigan Gold	311,972	368,949	908,808	-	(84,653)	1,505,076
Reef	-	53,186	947,719	-	85,333	1,086,238
Other	274,203	76,000	120,033	-	(289,589)	180,647
	\$28,237,272	\$4,306,077	\$4,486,257	\$(6,568,008)	\$(114,038)	\$30,347,560

(a) Back Forty Project

The Back Forty Project (the "Project") controls approximately 7,600 (2010-9,300) acres of surface and mineral rights which are owned or held under lease or option by BFJV. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2% - 7% state royalty, which under state law can be renegotiated. The Project is subject to a 7% net distributable earnings royalty ("Net Profits after Payback") payable to a former joint venture partner.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

5. Mineral property costs: (Cont'd)

(a) Back Forty Project (Cont'd)

On August 6, 2009, the Company signed a Subscription, Option and Joint Venture Agreement (the "Agreement") with HudBay Minerals Inc. ("HudBay"). Under the terms of the Agreement (and a follow-on Operating Agreement), the following events occurred/came into effect:

- i. As of August 31, 2010 HudBay earned a 51% interest in the Project by exceeding \$10 million in aggregate expenditures on the Project over a 3 year period.
- ii. Pursuant to the Agreement, on March 9, 2012 HudBay and the Company transferred their interests in the Project to BFJV, a limited liability company. BFJV is owned 49% by the Company, and 51% by HudBay via its wholly owned subsidiary HudBay Michigan Inc. The affairs of BFJV are governed by an Operating Agreement entered into by the Company and HudBay, the terms of which mirror the original Subscription, Option and Joint Venture Agreement the Company had with HudBay. Under the Operating Agreement the following came into effect:
 - a. HudBay has the option to increase its interest in BFJV to 65% by funding and completing a feasibility study, funding and submitting a permitting application, and making outstanding specified option payments.
 - b. In the event a feasibility study is completed, permitting applications are submitted, HudBay elects to put the Project into production and issues a Development Notice, and permitting is obtained, the Company will have 90 days to arrange financing for its share of BFJV's costs. If the Company is unable to obtain financing, or elects not to do so, HudBay, by assuming the obligation to finance 100% of the development costs, will increase its ownership in BFJV by a further 10% to a minimum of 75%. Pursuant to the Operating Agreement, the Company's 25% share of the development costs would then be deducted from the Company's proportionate share of Net Proceeds from BFJV.
 - c. While HudBay retains the largest ownership interest in the Project, HudBay will be the manager and project operator. HudBay will also have exclusive marketing rights to sell production to HudBay or third parties on commercial terms.
 - d. If the feasibility study is not completed and all applications for permitting are not submitted on or before the fourth anniversary of the Agreement, the Company has the right to acquire HudBay's 51% interest in BFJV by reimbursing 50% of HudBay's total expenditures in respect of the Project incurred from the date of execution of the Agreement. If the Project is not brought into commercial production within four years from the grant of mining permits, the Company may acquire HudBay's 65% joint venture interest by reimbursing 50% of HudBay's total Project expenditures incurred after the date of execution of the Agreement. Notwithstanding the Company exercising the foregoing right, HudBay retains the marketing and product rights as provided for in the Operating Agreement. If the Company exercises its right to acquire HudBay's interest in the Project, HudBay's participating interest will be converted to a 1% NSR.

Pursuant to the Operating Agreement, HudBay is the operator of BFJV with authority and discretion as to the exploration and potential development of the Project and will have exclusive rights to purchase



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

5. Mineral property costs: (Cont'd)

and market the minerals produced from the Project. Although the legal name of BFJV includes the words "joint venture", management has determined that a joint venture under applicable accounting standards does not exist. IAS 31 "Interest in Joint Ventures" requires the venturers to have joint control over the strategic financial and operating decisions of the venture for it to be considered a joint venture for accounting purposes. Under the Operating Agreement the venturers do not have joint control.

At March 31, 2012 the Company maintained cash deposits in the amount of \$166,111, pursuant to escrow agreements. The amounts are being held as security for the fulfillment of obligations in accordance with certain agreements pursuant to the Project.

(b) Exploration Alliance

On October 15, 2010, the Company signed an Exploration Alliance agreement with HudBay. Under the agreement HudBay will fund exploration conducted by the Company (as Project Operator) in Michigan and other designated areas. HudBay made an initial payment to the Company of \$250,000, which the Company used to identify exploration properties. The Company is obligated to present HudBay with a minimum of five exploration targets. Subject to an approval process under the agreement HudBay may fund any such target up to \$2,000,000, following which the parties would form a 50/50 joint venture with respect to the target property. HudBay would then be able to increase its interest on each target to 65% by funding and completing a feasibility study and required mine permit applications.

During 2011 the Company presented five qualifying target properties to HudBay as required by the agreement. The Company and HudBay have agreed to proceed with four of them. HudBay has made a second payment to the Company of \$250,000, which the Company is using to seek out an additional five target properties. The advance is reduced dollar for dollar as expenditures are incurred on target properties. The remaining balance outstanding on the advance at March 31, 2012 amounts to \$229,903 (December 31, 2011 - \$250,000).

Future Exploration Alliance project costs:

Estimated lease and/or option costs related to the Exploration Alliance projects in each of the next five years are as follows:

2012	-	\$106,912
2013	-	\$127,862
2014	-	\$140,862
2015	-	\$18,412
2016	-	\$22,823



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

5. Mineral property costs: (Cont'd)

(c) Michigan Gold

On October 21, 2010, the Company entered into an option agreement with Minerals Processing Corporation (“MPC”), a related party, to earn a 100% interest in certain surface and mineral rights located in Marquette County, Michigan. In order for the Company to earn a 100% interest in this property, the following commitments to MPC must be fulfilled by the Company:

Due Date	Cash payment	Share payment*	Exploration expenditures
October 21, 2010 – payments/obligation met	\$25,000	100,000	\$ -
October 21, 2011– payments/obligation met	25,000	100,000	150,000
October 21, 2012	25,000	100,000	200,000
October 21, 2013	25,000	100,000	300,000
October 21, 2014	25,000	100,000	400,000
	\$125,000	500,000	\$ 1,050,000

* Instead of payment in stock, MPC may elect to receive \$50,000 in lieu of 100,000 common shares of the Company.

In addition, to the above noted costs, in order to complete the 100% acquisition of the property, the Company must purchase the mineral and surface rights owned by MPC before the agreement expiry date of October 21, 2015. The property is comprised of: 332 acres of surface and mineral land, for which the purchase price is \$1,300 per acre; 1,779 acres of mineral and mining rights only land, for which the purchase price is \$1; and options to purchase 73 acres of surface overlying mineral and mining rights owned or leased, for which the purchase price is \$1.

A net smelter royalty ranging from 1% to 4% is payable to MPC in the event of mineral production on the property.

MPC and the Company have common directors and officers.

Estimated lease and/or option costs related to the Michigan Gold Property are due in each of the next five years as follows:

2012	-	\$57,560
2013	-	\$58,760
2014	-	\$61,760
2015	-	\$62,960
2016	-	\$70,120

(d) Reef

The Company entered into a series of agreements with private landholders in Marathon County Wisconsin for the optioning of surface and mineral rights. The agreements consist of mining leases and exploration agreements with an option to purchase. Currently there are a total of 729 acres under these agreements which have terms from 2 to 20 years up to 2031.

A net smelter royalty up to 2% is payable in the event of mineral production on the property.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

5. Mineral property costs: (Cont'd)

Future Reef project costs:

Estimated lease and/or option costs related to the Reef Project in each of the next five years are as follows:

2012	-	\$42,362
2013	-	\$35,862
2014	-	\$35,862
2015	-	\$35,862
2016	-	\$35,862

(e) Other

The company has various other properties for which it owns exploration rights. Estimated related lease and/or option costs in each of the next five years are as follows:

2012	-	\$90,000
2013	-	\$12,000
2014	-	\$14,000
2015	-	\$16,000
2016	-	\$9,000

6. Capital assets:

Cost	Land	Buildings	Furniture and Fixtures	Total
At December 31, 2011 and March 31, 2012	\$ 426,380	\$ 527,899	\$ 31,361	\$ 985,640
Accumulated depreciation				
At December 31, 2011	\$ -	\$ (99,504)	\$ (17,519)	\$ (117,023)
Charge for the period	-	(3,800)	(700)	(4,500)
At March 31, 2012	-	(103,304)	(18,219)	(121,523)
Net book value				
December 31, 2011	\$ 426,380	\$ 428,395	\$ 13,842	\$ 868,617
March 31, 2012	\$ 426,380	\$ 424,595	\$ 13,142	\$ 864,117

7. Share capital:

(a) Common Shares

Authorized

The authorized capital stock of the Company consists of an unlimited number of common shares. Common share activity during the year was as follows:

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

7. Share capital: (Cont'd)

- i. During the March 31, 2012 quarter 6,000 options to acquire 6,000 common shares of the Company were exercised for proceeds of \$893.
- ii. On February 29, 2012 200,000 shares were issued to MPC, a related party, to fulfill certain commitments under an option agreement to acquire a 100% interest in the Michigan Gold property, as described in Note 5(c). The shares were valued at \$96,106 which was the closing price of the Company's shares on the transaction date.

(b) Stock-option and share-based compensation:

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company and its subsidiaries in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options to acquire an increased proprietary interest in the Company. Under the Plan, options are non-assignable and may be granted for a term not exceeding five years. The number of common shares that may be reserved for issuance to any one person must not exceed 5% of the outstanding common shares. The exercise price of an option may not be lower than the closing price of the common shares on the TSX, subject to applicable discounts, on the business day immediately before the date the option is granted. The options are non-transferable.

As at March 31, 2012, common share stock options held by directors, officers, employees and consultants are as follows:

Number of options outstanding	CDN \$ Exercise Price	Expiry Date	Number of options exercisable
1,286,000	0.15	March 2, 2014	1,286,000
791,250	0.25	November 10, 2014	791,250
1,645,000	0.90	February 2, 2016	1,645,000
3,722,250			3,722,250

The fair value of each option was estimated on the date of grant. Under Black-Scholes the options vested during the three months ended March 31, 2012 were valued at \$Nil (2011 - \$1,363,681). The following assumptions were used to value the options at the measurement date:

	2012	2011
Risk-free interest rate	-	2.62%
Expected life	-	5 years
Price volatility (i)	-	102%
Share price (CDN \$)	-	0.98
Dividend yield	-	Nil

(i) The Company determines the volatility of each stock option grant based on the historical volatility of the Company's common stock prior to the grant, estimated over the same period as the expected life of the option.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

7. **Share capital: (Cont'd)**

A summary of the status of the Company's stock option plan at March 31, 2012 and March 31, 2011, and changes during the periods are presented below:

	2012		2011	
	Options	Weighted average exercise Price (CDN \$)	Options	Weighted average exercise Price (CDN \$)
Balance outstanding January 1	4,928,250	\$ 0.90	5,363,818	\$ 0.730
Exercised	(6,000)		(113,625)	
Expired	(1,200,000)		-	
Granted	-		1,750,000	
Balance outstanding March 31	3,722,250	\$ 0.50	7,000,193	\$ 0.76

8. **Warrants:**

As of March 31, 2012 there were 515,140 (December 31, 2010 – 515,140) warrants issued and outstanding having a weighted average exercise price of CDN \$0.51, and expiry dates between June 2012 and October 2014.

9. **Related party transactions:**

During the three months ended March 31, 2012 management fees amounting to \$16,800 (2011- \$17,039) were charged by a company controlled by the CFO and a director of the Company.

During the three months ended March 31, 2012 key management, and a related individual, received remuneration consisting of management fees, salaries and benefits. Total remuneration for the quarter amounted to \$89,129 (2011-\$125,192). There were no outstanding balances with these related parties at March 31, 2012 and December 31, 2011.

During the quarter a total of \$102,045 (2011-\$58,942) was billed to the Company by a geological consulting company of which the President and CEO and another director are major shareholders. This amount was capitalized to the Mineral properties and is broken down as follows; \$82,854 for analytical services and sample preparation and analysis, \$19,191 for other. As at March 31, 2012, accounts payable includes \$Nil (December 31, 2011- \$Nil) owing to this related party. All of the Michigan Gold properties, as described in Note 5(c), are optioned by this geological consulting company.

During the quarter, the Company was charged Directors' fees totaling \$10,500 (2011- \$11,789) by non-executive directors. Accounts payable includes \$Nil (2011- \$Nil) owing to these related parties.

During the quarter, the Company was charged legal fees totaling \$12,085 (2011-\$26,555) by a law firm whose partner is an officer of the Company. As at March 31, 2012 accounts payable includes \$Nil (2011-\$Nil) due to this related party.

During the quarter rental expenditures in the amount of \$3,600 (2011-\$3,651) were charged by a Company with common directors. As of March 31, 2012, accounts payable includes \$Nil (2011-\$Nil) owing to this related party.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

9. Related party transactions: (Cont'd)

During the March 31, 2012 quarter exploration and evaluation expenditures in the amount of \$1,615,196 (2010 - \$1,703,416) were reimbursed by HudBay, a company that has an approximate 15.8% interest in the Company, and one member on its board of directors. The re-imbursement was pursuant to the terms of the HudBay Option and Joint Venture and the Exploration Alliance agreements described in Note 5. Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. Changes in non-cash working capital and other assets:

For the three months ended March 31,	2012	2011
Accounts receivable	\$ (365,051)	\$ (873,172)
Prepaid expenses	(584)	8,532
Security deposits	-	(1,540)
Accounts payable and accrued liabilities	269,136	(18,383)
Advance for work to be performed	(20,097)	(210,811)
	\$ (116,596)	\$ (1,095,374)

11. Capital management:

The Company considers its capital to include all of the components of its shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

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

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

The Company expects its current capital resources will be sufficient to carry out its exploration plans and operations through its current operating period.



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

11. Capital management: (Cont'd)

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2012.

12. Financial instruments:

Fair value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The fair value of cash, accounts receivable, and accounts payable and accrued liabilities and advance for work to be performed are comparable to their carrying value due to the relatively short period to maturity of these instruments. The fair value of the security deposits approximates carrying value due to its interest rate approximating market rates.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to cash and receivables included in current assets and security deposits. The Company has no material concentration of credit risk arising from operations. Cash and security deposits consists of bank deposits which have been invested with a Canadian Chartered Bank, from which management believes the risk of loss to be remote. Management believes that the credit risk concentration with respect to receivables is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2012, the Company had cash of \$1,188,421 (December 31, 2010 - \$1,926,624) to settle accounts payable and accrued liabilities of \$331,473 (December 31, 2010 - \$62,337). The ability of the Company to continue to pursue its exploration activities is dependent on its ability to secure additional equity or other financing. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

The Company is exposed to currency risk arising from fluctuations in foreign exchange rates. The Company raises funds from equity financing primarily in Canadian dollars and pays for a significant amount of expenditures relating to its mineral property interests in U.S. dollars.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period.

- (a) The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable, and accounts payable and accrued liabilities that are denominated



NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

12. Financial instruments: (Cont'd)

predominantly in Canadian Dollars. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net loss by approximately \$167,000 (2010 - \$20,000).

- (b) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of minerals may be produced in the future, a profitable market will exist for them.

As of March 31, 2012 the Company is not a producer of minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

13. Subsequent event:

On April 26, 2012 the Company announced the highlights of a National Instrument 43-101 compliant Preliminary Economic Assessment of the Back Forty Project. Further details are discussed in the Company's March 31, 2012 Management Discussion and Analysis under the heading "Key Developments During Q1 2012" which can be found on Sedar at www.sedar.com.

14. Comparative figures:

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.