Blue Sky Uranium Corp.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Canadian Dollars)

Blue Sky Uranium Corp.
(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	Note	December 31, 2011 $	December 31, 2010 $ (note 14)	January 1, 2010 $ (note 14)
ASSETS				
Non-current assets				
Property and equipment	3	25,110	9,277	-
Mineral property interests	4	2,803,155	2,694,376	2,624,782
Deposit		60,000	60,000	-
Total non-current assets		2,888,265	2,763,653	2,624,782
Current assets				
Prepaid expenses		19,894	177,100	336,327
Amounts receivable		23,899	39,541	13,227
Cash		52,411	2,211,634	1,334,398
Total current assets		96,204	2,428,275	1,683,952
Total Assets		2,984,469	5,191,928	4,308,734
EQUITY				
Share capital	5	17,016,485	16,081,510	10,231,995
Reserves	5	3,467,545	3,088,332	2,477,291
Accumulated deficit		(17,776,330)	(14,188,195)	(8,598,933)
Total Equity		2,707,700	4,981,647	4,110,353
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		276,769	210,281	198,381
Total Liabilities		276,769	210,281	198,381
COMMITMENT (Note 10)				
Total Equity and Liabilities		2,984,469	5,191,928	4,308,734

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
SUBSEQUENT EVENTS (Note 13)

These consolidated financial statements are authorized for issue by the Board of Directors on March 21, 2012. They are signed on the Company's behalf by:

"Sean Hurd" , Director

"Ron McMillan" , Director

Blue Sky Uranium Corp.

(An Exploration Stage Company)

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Note	Year ended December 31, 2011 $	2010 $ (note 14)
Expenses			
Accounting and audit		40,000	65,799
Depreciation		5,060	843
Corporate development and investor relations		213,077	287,755
Exploration		1,981,857	3,191,735
Foreign exchange loss		46,098	18,390
Management fees		439,500	388,855
Office and sundry		115,149	186,728
Professional and consulting fees		256,080	287,680
Rent, parking and storage		81,019	117,447
Salaries and employee benefits		236,363	225,012
Share-based compensation		82,831	668,332
Transfer agent and regulatory fees		22,807	54,891
Travel and accommodation		70,781	96,022
Loss from operating activities		3,590,622	5,589,489
Interest income		(2,487)	(227)
Loss and comprehensive loss for the year		3,588,135	5,589,262
Basic and diluted loss per common share	8	(0.04)	(0.09)

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

Blue Sky Uranium Corp.
(An Exploration Stage Company)

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	Year ended December 31,	
	2011 $	2010 $ (note 14)
Cash flows from operating activities		
Loss for the year	(3,588,135)	(5,589,262)
Share-based compensation	82,831	668,332
Depreciation	5,060	843
	(3,500,244)	(4,920,087)
Change in deposit	-	(10,000)
Change in non-cash working capital items:		
(Increase) decrease in amounts receivable	15,642	(26,314)
(Increase) decrease in prepaid expenses	157,206	109,227
Increase (decrease) in accounts payable and accrued liabilities	66,488	11,900
Net cash used in operating activities	(3,260,908)	(4,835,274)
Cash flows from investing activities		
Purchase of short term investments	(1,150,851)	-
Redemption of short term investments	1,150,851	-
Property and equipment acquisitions	(20,893)	(10,120)
Mineral property interests acquisitions	(108,779)	(69,594)
Net cash used in investing activities	(129,672)	(79,714)
Cash flows from financing activities		
Issuance of common shares and warrants	1,199,727	2,582,250
Share issue costs	(38,370)	(133,727)
Exercise of warrants and options	70,000	3,343,701
Net cash generated by financing activities	1,231,357	5,792,224
Net increase (decrease) in cash	(2,159,223)	877,236
Cash at beginning of year	2,211,634	1,334,398
Cash at end of year	52,411	2,211,634

SUPPLEMENTARY CASH FLOW INFORMATION (Note 11)

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

Blue Sky Uranium Corp.

(An Exploration Stage Company)

Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

	Share capital		Reserves				
	Number of shares	Amount $	Contributed Surplus $	Equity settled share-based payments $	Warrants $	Accumulated Deficit $	Total $
Balance at January 1, 2010 (note 14)	52,435,426	10,231,995	817,462	851,303	808,526	(8,598,933)	4,110,353
Private placement	10,329,000	2,143,777	-	-	438,473	-	2,582,250
Share issue costs	-	(189,462)	-	-	-	-	(189,462)
Agent’s warrants granted	-	-	-	-	55,735	-	55,735
Warrants exercised	15,119,970	3,631,856	-	-	(438,155)	-	3,193,701
Warrants expired	-	-	9,464	-	(9,464)	-	-
Share-based compensation	-	-	-	668,332	-	-	668,332
Stock options exercised	1,085,000	263,344	(9,087)	(104,257)	-	-	150,000
Stock options expired	-	-	137,720	(137,720)	-	-	-
Total comprehensive (loss) for the year	-	-	-	-	-	(5,589,262)	(5,589,262)
Balance at December 31, 2010 (note 14)	78,969,396	16,081,510	955,559	1,277,658	855,115	(14,188,195)	4,981,647
Private placement	7,350,500	868,323	-	-	331,404	-	1,199,727
Share issue costs	-	(56,235)	-	-	-	-	(56,235)
Agent’s warrants granted	-	-	-	-	17,865	-	17,865
Share-based compensation	-	-	-	82,831	-	-	82,831
Stock options exercised	700,000	122,887	-	(52,887)	-	-	70,000
Stock options expired	-	-	39,164	(39,164)	-	-	-
Warrants expired	-	-	360,906	-	(360,906)	-	-
Total comprehensive (loss) for the year	-	-	-	-	-	(3,588,135)	(3,588,135)
Balance at December 31, 2011	87,019,896	17,016,485	1,355,629	1,268,438	843,478	(17,776,330)	2,707,700

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

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company was incorporated under the Business Corporation Act of British Columbia on November 30, 2005 as Mulligan Capital Corp. On May 18, 2006, the Company received final receipts for a prospectus and became a reporting issuer in British Columbia and Alberta. On June 27, 2006 the Company completed its initial public offering (the "Offering") and on June 28, 2006 the Company listed its common shares on the TSX Venture Exchange (the "TSX-V") as a capital pool company. On February 7, 2007, the Company completed its qualifying transaction (the "QT") and was upgraded to Tier II status on the TSX-V. The Company also changed its name to Blue Sky Uranium Corp. to reflect its business as a junior uranium exploration company.

The amounts shown as mineral property interests represent acquisition costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The underlying value of the mineral property interests is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to advance the properties beyond the exploration stage, and future profitability of the properties.

The Company has experienced recurring operating losses and has an accumulated deficit of $17,776,330 at December 31, 2011 (December 31, 2010 - $14,188,195) and equity of $2,707,700 at December 31, 2011 (December 31, 2010 – $4,981,647). In addition, the Company had a working capital deficiency of $180,565 at December 31, 2011 (December 31, 2010 –working capital of $2,217,994). Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued operations, as intended, are dependent upon its ability to raise additional funding to meet its obligations and to attain profitable operations. Management's plan in this regard is to raise equity financing as required. There are no assurances that the Company will be successful in achieving these goals. These consolidated financial statements do not include adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Conversion to International Financial Reporting Standards

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first annual consolidated financial statements presented in accordance with IFRS. Previously the Company prepared its consolidated annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale and financial assets at fair value through profit and loss that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They have also been applied in preparing an opening IFRS statement of financial position as at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from GAAP to IFRS is explained in Note 14.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

	Place of Incorporation	Principal Activity
Blue Sky BVI Uranium Corp.	British Virgin Islands	Holding company
Minera Cielo Azul S.A. (Argentina)	Argentina	Exploration company
Desarrollo de Inversiones S.A. (Argentina)	Argentina	Exploration company

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies

The presentation and functional currency of the Company is the Canadian dollar. Transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Non-derivative financial assets

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

(i) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified at fair value through profit or loss if they are classified as held for trading or are designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Short term investments are FVTPL.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and amounts receivable.

(iii) Other financial liabilities

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Property and Equipment

Equipment is recorded at cost less accumulated depreciation calculated using the straight-line method over its estimated useful lives of two years for geological equipment. Computer software useful life will be determined once fully implemented. Depreciation of an asset begins once it is available for use.

Exploration, Evaluation and Development Expenditures

Exploration and evaluation expenditures are expensed as incurred, until the property reaches the development stage. The development stage in considered to begin once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable. All direct costs related to the acquisition of resource property interests are capitalized. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

Mineral property acquisition costs include cash costs and the fair market value of common shares issued, based on the trading price of the shares issued for mineral property interests, pursuant to the terms of the related property agreements. Payments related to a property acquired under an option or joint venture agreement are made at the sole discretion of the Company, and are recorded as mineral property acquisition costs upon payment.

Cash and Cash Equivalents

Cash and cash equivalents are classified as loans and receivables and include short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company places its deposits with financial institutions with high credit ratings.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Valuation of equity units issued in private placements

The Company follows a pro rata allocation method with respect to the measurement of shares and warrants issued as private placement units. This values each component at fair value and allocates total proceeds received between shares and warrants based on the pro rata relative values of the components. The fair value of the common shares is based on the closing price on the issue date and the fair value of the common share purchase warrants is determined at the issue date using the Black-Scholes pricing model. The fair value attributed to the warrants is recorded in warrant equity.

Share-based Payment Transactions

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to equity settled share-based payments reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related equity settled share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from equity settled share-based payment reserve.

Restoration, Rehabilitation, and Environmental Obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

The Company has no material restoration, rehabilitation and environmental obligations as the disturbance to date is immaterial.

Loss per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Estimates and Judgments

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

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Critical accounting estimates

i. the estimated useful lives of property and equipment which are included in the consolidated statements of financial position and the related depreciation included in profit or loss;

ii. the inputs used in accounting for share-based compensation expense in profit or loss;

iii. the assessment of indications of impairment of each mineral property and related determination of the net realizable value and write-down of those properties where applicable; and,

Critical accounting judgments

i. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

ii. The analysis of the functional currency for each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

New Accounting Standards and Interpretations

In 2011, the International Accounting Standards Board issued new and amended standards and interpretations which have not yet been adopted by the Company. The Company has not yet begun the process of assessing the impact that the new and amended standards and interpretations will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the new and amended standards and interpretations:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 – Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The standard is applicable for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The standard is applicable for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is applicable for annual periods beginning on or after January 1, 2013, with earlier application permitted.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The standard is applicable for annual periods beginning on or after January 1, 2013, with earlier application permitted.

3. PROPERTY AND EQUIPMENT

	Computer Software	Geological Equipment	Total $
Cost			
Balance at January 1, 2010	-	-	-
Additions	-	10,120	10,120
Balance at December 31, 2010	-	10,120	10,120
Additions	20,893	-	20,893
Balance at December 31, 2011	20,893	10,120	31,013
Accumulated Depreciation			
Balance at January 1, 2010	-	-	-
Depreciation	-	843	843
Balance at December 31, 2010	-	843	843
Depreciation	-	5,060	5,060
Balance at December 31, 2011	-	5,903	5,903
Carrying Amount			
At January 1, 2010	-	-	-
At December 31, 2010	-	9,277	9,277
At December 31, 2011	20,893	4,217	25,110

(Expressed in Canadian Dollars)

4. MINERAL PROPERTY INTERESTS

The schedule below summarizes the carrying costs of acquisition costs and all exploration expenditures incurred to date for each mineral property interest that the Company is continuing to explore as at December 31, 2011 and 2010:

Acquisition Costs

	Argentina					
	Santa Barbara $	**Anit $**	**Ivana $**	**Sierra Colonia $**	**Other $**	**Total $**
Balance – January 1, 2010	813,639	939,965	-	-	871,178	2,624,782
Additions						
Land payments and staking fees	791	15,052	11,429	-	42,322	69,594
Balance – December 31, 2010	814,430	955,017	11,429	-	913,500	2,694,376
Additions						
Land payments and staking fees	-	1,423	5,101	21,723	80,532	108,779
Balance – December 31, 2011	814,430	956,440	16,530	21,723	994,032	2,803,155

(Expressed in Canadian Dollars)

4. MINERAL PROPERTY INTERESTS (continued)

	Argentina					
	Santa Barbara $	**Anit $**	**Ivana $**	**Sierra Colonia $**	**Other $**	**Total $**
Cumulative exploration costs – January 1, 2010	707,790	373,859	-	-	4,837	1,086,486
Expenditures during the period:						
Assays	12,658	186,654	-	-	2,308	201,620
Drilling	-	246,154	-	-	-	246,154
Geophysics	-	731,421	-	-	-	731,421
Office	70,276	149,634	-	-	9,792	229,702
Salaries and contractors	12,367	836,404	-	-	9,143	857,914
Supplies and equipment	539	536,077	-	-	8,398	545,014
Transportation	31,261	96,663	-	-	4,494	132,418
IVA taxes	10,684	233,936	-	-	2,872	247,492
	137,785	3,016,943	-	-	37,007	3,191,735
Cumulative exploration costs – December 31, 2010	845,575	3,390,802	-	-	41,844	4,278,221
Expenditures during the period:						
Assays	198	2,381	6,081	6,690	3,167	18,517
Drilling	-	-	-	-	-	-
Geophysics	246	328	246	956	54,568	56,344
Office	7,358	83,108	146,293	30,854	91,847	359,460
Salaries and contractors	32,809	59,533	540,591	102,310	175,654	910,897
Supplies and equipment	2,162	7,957	192,049	19,005	17,197	238,370
Transportation	2,252	6,433	97,583	16,932	30,777	153,977
Statutory taxes	4,394	90,321	95,910	17,248	36,419	244,292
	49,419	250,061	1,078,753	193,995	409,629	1,981,857
Cumulative exploration costs – December 31, 2011	894,994	3,640,863	1,078,753	193,995	451,473	6,260,078

a) Anit Property

The Company owns a 100% interest in the 260 km^2 Anit uranium property, which lies to the south of, and is contiguous with, the Santa Barbara Property in the Province of Rio Negro, Argentina.

b) Santa Barbara Property

The Company owns a 100% interest in the 476 km^2 Santa Barbara uranium property in the Province of Rio Negro, located in the northern Patagonia region of Argentina.

c) Ivana Property

The Company owns a 100% interest in the 713 km^2 Ivana uranium property in the San Jorge Basin, Province of Rio Negro, located in the northern Patagonia region of Argentina.

4. MINERAL PROPERTY INTERESTS (continued)

d) Sierra Colonia Property

The Company owns a 100% interest in the 399 km^2 Sierra Colonia property in the central part of the province of Chubut, Argentina.

5. SHARE CAPITAL AND RESERVES

Authorized Share Capital

At December 31, 2011, the authorized share capital comprised an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

Issued Share Capital

At December 31, 2011, the issued share capital comprised 87,019,896 common shares (December 31, 2010 – 78,969,396).

Details of Private Placement Issues of Common Shares in 2011 and 2010

In September 2010, the Company completed a non-brokered private placement consisting of 10,329,000 units at a price of $0.25 per unit for gross proceeds of $2,582,250. Each unit consisted of one common share and one-half share purchase warrant. Each full warrant entitles the holder thereof to purchase one additional common share in the capital of the Company at a price of $0.35 per share for two years. Finders' fees were $133,727 of cash and 534,310 warrants that are exercisable at a price of $0.35 per share for two years having a fair value of $55,735. Fair value was calculated using the following Black-Scholes pricing model variables: risk-free interest rate – 1.25%, expected stock price volatility – 110%, dividend yield of 0%, and expected warrant life in years – 1.4.

In May 2011, the Company completed a non-brokered private placement consisting of 5,800,500 units at a price of $0.18 per unit for gross proceeds of $1,044,090. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share in the capital of the Company at a price of $0.25 per share for 18 months from the date of issue of the warrant. Finders' fees were $35,633 of cash and 197,960 warrants exercisable into common shares at $0.25 per share for 18 months having a fair value of $17,865. Fair value was calculated using the following Black-Scholes pricing model variables: risk-free interest rate – 1.64%; expected stock price volatility – 99.32%; dividend yield of 0%, and expected warrant life of 1.48 years.

In December 2011, the Company completed a non-brokered private placement consisting of 1,550,000 units at a price of $0.10 per unit for gross proceeds of $155,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full warrant entitles the holder thereof to purchase one additional common share in the capital of the Company at a price of $0.15 per share for 18 months from the date of issue of the warrant. Finders' fees were $2,100 of cash and 21,000 warrants exercisable into common shares at $0.15 per share for 18 months having a fair value of $638. Fair value was calculated using the following Black-Scholes pricing model variables: risk-free interest rate – 0.95%; expected stock price volatility – 102.66%; dividend yield of 0%, and expected warrant life of 1.48 years.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL AND RESERVES (continued)

Share Purchase Option Compensation Plan

The Company has a share purchase option plan (the "Plan") approved by the Company's shareholders that allows it to grant share purchase options, subject to regulatory terms and approval, to its officers, directors, employees and service providers. The Plan is based on the maximum number of eligible shares equaling a rolling percentage of 10% of the Company's outstanding common shares, calculated from time to time. If outstanding share purchase options are exercised or expire, and/or the number of issued and outstanding common shares of the Company increases, then the share purchase options available to grant under the Plan increase proportionately.

The exercise price of each share purchase option is set by the Board of Directors at the time of grant but cannot be less than the market price less allowable discounts in accordance with the policies of the TSX Venture Exchange. Share purchase options granted vest immediately, are subject to a four-month hold period and are exercisable for a period of five years.

The continuity of share purchase options for the year ended December 31, 2011 is as follows:

Expiry date	Exercise Price	December 31, 2010	Granted	Exercised	Expired/ forfeited	December 31, 2011	Options exercisable
June 28, 2011	$0.10	700,000	-	(700,000)	-	-	-
October 6, 2011	$0.21	75,000	-	-	(75,000)	-	-
February 10, 2012	$0.66	75,000	-	-	-	75,000	75,000
June 1, 2012	$1.00	215,000	-	-	-	215,000	215,000
January 25, 2013	$0.40	15,000	-	-	-	15,000	15,000
May 6, 2014	$0.15	1,465,000	-	-	-	1,465,000	1,465,000
July 6, 2014	$0.15	300,000	-	-	-	300,000	300,000
July 22, 2014	$0.18	75,000	-	-	-	75,000	75,000
December 9, 2014	$0.65	725,000	-	-	(10,000)	715,000	715,000
March 15, 2015	$0.73	100,000	-	-	-	100,000	100,000
October 5, 2015	$0.26	3,270,000	-	-	(50,000)	3,220,000	3,220,000
October 29, 2015	$0.25	75,000	-	-	-	75,000	75,000
May 31, 2016	$0.22	-	600,000	-	-	600,000	150,000
September 25, 2016	$0.10	-	200,000	-	-	200,000	200,000
		7,090,000	800,000	(700,000)	(135,000)	7,055,000	6,605,000
Weighted average exercise price		$0.29	$0.19	$0.10	$0.26	$0.30	$0.30
Weighted average contractual remaining life (years)		3.7	4.5	-	-	3.3	3.2
Weighted average share price on exercise		-	-	$0.21	-	-	-

5. SHARE CAPITAL AND RESERVES (continued)

(Expressed in Canadian Dollars)

The continuity of share purchase options for the year ended December 31, 2010 is as follows:

Expiry date	Exercise Price	January 1, 2010	Granted	Exercised	Expired/ forfeited	December 31, 2010	Options exercisable
January 31, 2010	$0.90	335,000	-	-	(335,000)	-	-
June 28, 2011	$0.10	1,000,000	-	(300,000)	-	700,000	700,000
October 6, 2011	$0.21	75,000	-	-	-	75,000	75,000
February 10, 2012	$0.66	-	75,000	-	-	75,000	75,000
June 1, 2012	$1.00	215,000	-	-	-	215,000	215,000
January 25, 2013	$0.40	15,000	-	-	-	15,000	15,000
May 6, 2014	$0.15	1,925,000	-	(460,000)	-	1,465,000	1,465,000
July 6, 2014	$0.15	550,000	-	(250,000)	-	300,000	300,000
July 22, 2014	$0.18	150,000	-	(75,000)	-	75,000	75,000
December 9, 2014	$0.65	735,000	-	-	(10,000)	725,000	725,000
March 15, 2015	$0.73	-	100,000	-	-	100,000	100,000
October 5, 2015	$0.26	-	3,270,000	-	-	3,270,000	3,270,000
October 29, 2015	$0.25	-	75,000	-	-	75,000	75,000
		5,000,000	3,520,000	1,085,000	345,000	7,090,000	7,090,000
Weighted average exercise price		$0.30	$0.28	$0.14	$0.89	$0.29	$0.29
Weighted average contractual remaining life (years)		3.5	4.7	2.6	-	3.7	3.7
Weighted average share price on exercise		-	-	$0.73	-	-	-

The weighted average fair value of share purchase options granted during the year ended December 31, 2011 is $0.15 (2010 - $0.19). Options were priced based on the Black-Scholes option pricing model using the following weighted average assumptions to estimate the fair value of options granted:

	Year ended December 31, 2011	2010
Risk-free interest rate	1.40%	1.39%
Expected option life in years	2.97	2.69
Expected share price volatility	160.51%	111.00%
Expected rate of forfeiture	-	-
Grant date share price	$0.18	$0.28
Expected dividend yield	Nil	Nil

(Expressed in Canadian Dollars)

5. SHARE CAPITAL AND RESERVES (continued)

Warrants

The continuity of warrants for the year ended December 31, 2011 is as follows:

Expiry date	Exercise Price	December 31, 2010	Granted	Exercised	Expired/ forfeited	December 31, 2011
November 6, 2011	$0.30	5,754,796	-	-	(5,754,796)	-
August 27, 2012	$0.35	5,698,810	-	-	-	5,698,810
November 8, 2012	$0.25	-	5,998,460	-	-	5,998,460
June 5, 2013	$0.15	-	696,000	-	-	696,000
June 15, 2013	$0.15	-	100,000	-	-	100,000
		11,453,606	6,794,460	-	(5,754,796)	12,493,270
Weighted average exercise price		$0.32	$0.24	-	$0.30	$0.29

The continuity of warrants for the year ended December 31, 2010 is as follows:

Expiry date	Exercise Price	January 1, 2010	Granted	Exercised	Expired/ forfeited	December 31, 2010
February 5, 2010	$0.40	733,186	-	(733,186)	-	-
February 5, 2010	$0.30	79,211	-	(79,211)	-	-
February 5, 2010	$0.40	-	39,605	(12,240)	(27,365)	-
September 17, 2010	$0.18	2,750,000	-	(2,750,000)	-	-
October 29, 2010	$0.18	5,583,333	-	(5,583,333)	-	-
November 12, 2010	$0.20	6,140,000	-	(5,835,000)	(305,000)	-
November 6, 2011	$0.30	5,881,796	-	(127,000)	-	5,754,796
August 27, 2012	$0.35	-	5,698,810	-	-	5,698,810
		21,167,526	5,738,415	(15,119,970)	(332,365)	11,453,606
Weighted average exercise price		$0.23	$0.35	$0.21	$0.22	$0.32

6. RELATED PARTY BALANCES AND TRANSACTIONS

A number of key management personnel, or their related parties, hold positions in other entities that result in them have control or significant influence over the financial or operating policies of the entities outlined below.

The following entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

(Expressed in Canadian Dollars)

6. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

The aggregate value of transactions relating to key management personnel and entities over which they have control or significant influence were as follows:

Transactions	Year ended December 31, 2011 $	2010 $
Services rendered:		
Grosso Group Management Ltd. (a)	597,000	642,291
R.H. McMillan Ltd. (b)	41,379	45,830
Total for services rendered	638,379	688,121

(a) On March 31, 2010, the Company and Golden Arrow Resources Corp. ("Golden Arrow") collectively entered into a sale agreement with an officer and director of Golden Arrow to sell their shares held in Grosso Group Management Ltd., ("Grosso Group") for proceeds of $1. On April 1, 2010, the Company entered into a Management Services Agreement ("Agreement") with Grosso Group to provide services and facilities to the Company. Grosso Group provides its member companies with administrative and management services. The member companies pay monthly fees to Grosso Group on a cost recovery basis. The fee is based upon a pro-rating of Grosso Group's costs including its staff and overhead costs among the member companies. The initial fee based on expected usage is $60,000 per month. This fee is reviewed and adjusted quarterly based on the level of services required. The Agreement expires on December 31, 2012. The Agreement contains termination and early termination fees in the event the services are terminated by the Company. The termination fee includes three months of compensation and any contractual obligations that Grosso Group undertook for the Company, up to a maximum of $750,000. The early termination fees are the aggregate of the termination fee in addition to the lesser of the monthly fees calculated to the end of the term and the monthly fees calculated for eighteen months, up to a maximum of $1,000,000.

(b) R.H. McMillan Ltd. is a private company controlled by Ron McMillan, a director that provided geological services to the Company at market rates.

Key management personnel compensation

Compensation	Salaries $	Bonus payments $	Share-based benefits $	Year ended December 31, 2011 $	Salaries $	Bonus payments $	Share-based benefits $	Year ended December 31, 2010 $
Chief Executive Officer	120,000	-	-	120,000	120,000	-	-	120,000
President	72,917	50,000	39,943	162,860	-	-	-	-
Chief Financial Officer	53,429	-	-	53,429	32,655	-	51,814	84,469
Total	246,346	50,000	39,943	336,289	152,655	-	51,814	204,469

(Expressed in Canadian Dollars)

7. INCOME TAXES

The recovery of income taxes shown in the consolidated statements of operations and deficit differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2011	2010
Statutory tax rate	26.50%	28.50%
	$	$
Loss before income taxes	(3,588,135)	(5,589,262)
Income tax recovery at statutory rate	(950,856)	(1,592,940)
Non-deductible differences	22,491	191,339
Income tax rate change and differential between Canadian rate and rates applicable to entities in other countries	(143,438)	(46,768)
Unrecognized amounts	1,071,803	1,448,369
Income tax recovery	-	-

Deferred income taxes reflect the net tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	2011 $	2010 $
Deferred income tax assets		
Resource deductions	195,785	944,782
Financing costs	71,562	141,191
Operating loss carryforwards	3,636,999	2,516,834
Property and equipment	1,476	11,489
	3,905,822	3,614,296
Net deferred income tax assets	3,905,822	3,614,296
Unrecognized deferred tax assets	(3,905,822)	(3,614,296)
Deferred income tax asset	-	-

As at December 31, 2011, the Company has Canadian non-capital loss carryforwards of $8,730,199 that may be available for tax purposes. The Company's capital losses do not expire and may be carried forward indefinitely. The Company's non-capital losses expire as follows:

Expiry Date	$
2015	6,293
2026	131,664
2027	1,755,704
2028	1,960,034
2029	1,092,852
2030	2,110,446
2031	1,673,206
	8,730,199

(Expressed in Canadian Dollars)

7. INCOME TAXES (continued)

At December 31, 2011, the Company had net operating loss carry forwards for Argentina income tax purposes of approximately $236,181 (2010 – $106,659) which, if not utilized to reduce Argentinean taxable income in future periods, expire through the year 2015. These available tax losses may only be applied to offset future taxable income from the Company's current Argentinean subsidiary.

8. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2011 was based on the following:

	Year ended December 31, 2011	2010
Loss attributable to common shareholders ($)	(3,588,135)	(5,589,262)
Weighted average number of common shares outstanding	83,295,474	65,537,605

Diluted loss per share did not include the effect of 7,055,000 (December 31, 2010 – 7,090,000) share purchase options and 12,493,270 (December 31, 2010 – 11,453,606) common share purchase warrants as they are anti-dilutive.

9. OPERATING SEGMENTS

The Company is primarily involved in mineral exploration activities in Argentina. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating revenues for the year ended December 31, 2011.

The Company’s total assets are segmented geographically as follows:

December 31, 2011	Canada $	Argentina $	Total $
Property and equipment	-	25,110	25,110
Mineral property interests	-	2,803,155	2,803,155
Deposit	60,000	-	60,000
	60,000	2,828,265	2,888,265

December 31, 2010	Canada $	Argentina $	Total $
Property and equipment	-	9,277	9,277
Mineral property interests	-	2,694,376	2,694,376
Deposit	60,000	-	60,000
	60,000	2,703,653	2,763,653

(Expressed in Canadian Dollars)

9. OPERATING SEGMENTS (continued)

	January 1, 2010		
	Canada $	Argentina $	Total $
Mineral property interests	-	2,624,782	2,624,782
	-	2,624,782	2,624,782

10. COMMITMENT

	1 Year $	2 Years $	3 Years $	4-5 Years $	More than 5 Years $
Management Services Agreement	372,000	-	-	-	-

On April 1, 2010, the Company entered into an Agreement with Grosso Group to provide services and facilities to the Company. Grosso Group provides its member companies with administrative and management services. The member companies pay monthly fees to Grosso Group on a cost recovery basis. The fee is based upon a pro-rating of Grosso Group's costs including its staff and overhead costs among the member companies. The current monthly fee is $31,000 per month.

11. SUPPLEMENTARY CASH FLOW INFORMATION

	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Non-cash investing and financing activities		
Exercise of options	52,887	113,344
Exercise of warrants	-	438,155
Agent warrants issued upon completion of private placement	17,865	55,735

12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

(a) Fair Values

The Company's financial instruments consist of cash, amounts receivable and accounts payable. The fair value of cash, amounts receivable and accounts payable approximates their carrying values due to the immediate or short-term maturity of these financial instruments.

(b) Financial Instrument Risk Exposure

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The Company has reduced its credit risk by depositing its cash with financial institutions that operate globally. The Company's receivables are with the government of Canada in the

form of sales tax, the credit risk is minimal. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due (Note 1). The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares and warrants to fund exploration programs and may require doing so again in the future.

Market risk

(i) Currency risk

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include: US dollars and Argentine Pesos, all denominated in cash, amounts receivable and accounts payable. The sensitivity of the Company's net earnings and other comprehensive income to changes in the exchange rate between the Canadian dollar and the United States dollar and between the Canadian dollar and the Argentine Peso is summarized as follows:

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's net loss by $201.

A 10% change in the Argentinean peso exchange rate relative to the Canadian dollar would change the Company's net loss by $19,568.

(ii) ***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash bears no interest. The fair value of cash approximates its carrying values due to the immediate or short-term maturity of this financial instrument. Other current financial assets and liabilities are not exposed to interest rate risk because they are non-interest bearing.

12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

(c) Capital Management

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, reserves and deficit. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares to develop its mineral projects and may require doing so again in the future.

The Company is monitoring market conditions to secure funding at the lowest cost of capital. The Company is exposed to various funding and market risks which could curtail its access to funds.

13. SUBSEQUENT EVENTS

- On January 4, 2012, the Company announced entering into a MOU with AREVA to jointly explore Argentina for uranium deposits. Under the terms of the MOU the following commitments have been made (amounts in CAD):
    - AREVA and the Company form a joint technical committee to direct exploration activities.
    - The Company will be the operator in years one and two (2012 and 2013).
    - AREVA can select one or two projects and earn 51% interest by:
        - Funding $1 million in exploration in year one.
        - Funding $2 million in exploration in year two.
        - Funding $3 million in year three on the project AREVA selects if only one project is selected, or funding a total of $4 million in exploration on two projects if AREVA selects two projects.
    - At the end of year two, the Company will retain a 100% interest in all projects except the one (or two) project(s) AREVA selects to earn a 51% interest.
    - On newly acquired uranium targets in Argentina that are not listed in this MOU, AREVA can elect to earn a 51% interest by funding $1 million in exploration on each new target.
    - For any non-uranium discoveries made the Company will retain a 100% interest.

- On January 27, 2012, the Company announced a proposed consolidation of its share capital on the basis of one new common share of the Company for every ten existing common shares. The share consolidation is subject to approval by Blue Sky shareholders at the upcoming special meeting to be held on March 22, 2012, and approval by the TSX Venture Exchange.

- On February 10, 2012, 75,000 stock options expired with an exercise price of $0.75.

14. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010, and the opening IFRS statement of financial position on January 1, 2010, the "Transition Date."

In preparing the opening IFRS statement of financial position and the financial statements for the year ended December 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP.

An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The IFRS 1 optional exemptions applied by the Company in the conversion from GAAP to IFRS are as follows:

(i) Business Combination Exemption

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to apply IFRS 3 to only those business combinations that occurred on or after the Transition Date and such business combinations have not been restated. As a result of this election, no adjustments were required to the Company's statement of financial position as at the Transition Date.

(ii) Share-Based Payment Exemption

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS. Company has elected not to apply IFRS 2 to awards that vested prior to the Transition Date.

(Expressed in Canadian Dollars)

Reconciliation of Assets, Liabilities and Equity

	As at January 1, 2010			As at December 31, 2010		
	GAAP	Effect of transition to IFRS Notes (a) and (b)	IFRS	GAAP	Effect of transition to IFRS Notes (a) and (b)	IFRS
	$	$	$	$	$	$
ASSETS						
Non-current assets						
Property, plant and equipment	-	-	-	9,277	-	9,277
Mineral property interests	3,396,203	(771,421)	2,624,782	3,465,797	(771,421)	2,694,376
Deposit	-	-	-	60,000	-	60,000
Total non-current assets	3,396,203	(771,421)	2,624,782	3,535,074	(771,421)	2,763,653
Current assets						
Prepaid expenses	336,327	-	336,327	177,100	-	177,100
Amounts receivable	13,227	-	13,227	39,541	-	39,541
Cash	1,334,398	-	1,334,398	2,211,634	-	2,211,634
Total current assets	1,683,952	-	1,683,952	2,428,275	-	2,428,275
Total assets	5,080,155	(771,421)	4,308,734	5,963,349	(771,421)	5,191,928
EQUITY						
Share capital	10,231,995	-	10,231,995	16,081,510	-	16,081,510
Warrants	808,526	(808,526)	-	855,115	(855,115)	-
Contributed surplus	1,668,765	(1,668,765)	-	2,233,217	(2,233,217)	-
Reserves	-	2,477,291	2,477,291	-	3,088,332	3,088,332
Deficit	(7,827,512)	(771,421)	(8,598,933)	(13,416,774)	(771,421)	(14,188,195)
Total equity	4,881,774	(771,421)	4,110,353	5,753,068	(771,421)	4,981,647
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	198,381	-	198,381	210,281	-	210,281
Total liabilities	198,381	-	198,381	210,281	-	210,281
Total equity and liabilities	5,080,155	(771,421)	4,308,734	5,963,349	(771,421)	5,191,928

(Expressed in Canadian Dollars)

Reconciliation of Loss and Comprehensive Loss

	Year ended December 31, 2010		
	GAAP $	**Effect of transition to IFRS** $	**IFRS** $
Expenses			
Accounting and audit	65,799	-	65,799
Depreciation	843	-	843
Corporate development and investor relations	287,755	-	287,755
Exploration	3,150,458	-	3,191,735
Foreign exchange loss	59,667	-	18,390
Management fees	388,855	-	388,855
Office and sundry	186,728	-	186,728
Professional and consulting fees	287,680	-	287,680
Rent, parking and storage	117,447	-	117,447
Salaries and employee benefits	225,012	-	225,012
Share-based compensation	668,332	-	668,332
Transfer agent and regulatory fees	54,891	-	54,891
Travel and accommodation	96,022	-	96,022
Loss from operating activities	5,589,489	-	5,589,489
Interest income	(227)	-	(227)
Loss and comprehensive loss for the year	5,589,262	-	5,589,262

(Expressed in Canadian Dollars)

Reconciliation of Cash Flows

	Year ended December 31, 2010		
	GAAP	**Effect of transition to IFRS**	**IFRS**
	$	$	$
Operating activities			
Loss for the year	(5,589,262)	-	(5,589,262)
Depreciation	843	-	843
Share-based compensation	668,332	-	668,332
Change in deposit	(10,000)	-	(10,000)
Changes in non-cash working capital items	94,813	-	94,813
Cash used in operating activities	(4,835,274)	-	(4,835,274)
Investing activities			
Acquisition of fixed assets	(10,120)	-	(10,120)
Mineral property interests	(69,594)	-	(69,594)
Cash used in investing activities	(79,714)	-	(79,714)
Financing activities			
Issuance of common shares and warrants	2,582,250	-	2,582,250
Exercise of warrants and options	3,343,701	-	3,343,701
Share issue costs	(133,727)	-	(133,727)
Cash generated by financing activities	5,792,224	-	5,792,224
Increase (decrease) in cash	877,236	-	877,236
Cash, beginning of year	1,334,398	-	1,334,398
Cash, end of year	2,211,634	-	2,211,634

Notes to Reconciliations

(a) Reclassification Within Equity Section

IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company examined its contributed surplus account and concluded that as at the Transition Date, the balance is to be allocated between equity settled share-based payments reserve and contributed surplus reserve. As a result, the Company believes that a reclassification would be necessary in the equity section between contributed surplus reserve of $817,462 (December 31, 2010 - $955,559) and equity settled share-based payments reserve of $851,303 (December 31, 2010 - $1,277,658) totalling $1,668,765 (December 31, 2010 - $2,233,217).

In addition, the warrants balance of $808,526 (December 31, 2010 – $855,115) was reclassified into warrants reserve.

(b) Deferred Tax on Mineral Property

Under GAAP, the Company, in recording the acquisition of mineral properties by a subsidiary, recognized a deferred tax recovery on temporary differences arising on the initial recognition of the mineral property (where the fair value of the asset acquired exceeded its tax basis) in a transaction which was not a business combination and affected neither accounting profit or loss nor taxable profit or loss. IAS 12, Income Taxes ("IAS 12") does not permit the recognition of deferred income taxes on such transactions. As of the Transition Date, the Company has derecognized the impacts of the deferred tax recovery and the offsetting increase in mineral properties which had previously been recognized on the initial acquisition of the mineral property through transactions deemed not to be business combinations and affecting neither accounting profit or loss nor taxable profit or loss.