NEVADA SUNRISE GOLD CORP

NEVADA SUNRISE GOLD CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Nevada Sunrise Gold Corp.

We have audited the accompanying consolidated financial statements of Nevada Sunrise Gold Corp. which comprise the consolidated balance sheets as at September 30, 2011 and 2010 and the consolidated statements of operations and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Nevada Sunrise Gold Corp. as at September 30, 2011 and 2010 and the results of its operations and its cash flows for year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

January 27, 2012

NEVADA SUNRISE GOLD CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30

		2011		2010
ASSETS				
Current				
Cash	$	137,339	$	62,680
Due from related parties (Note 9)		2,789		-
Other current assets		12,395		4,632
		152,523		67,312
Equipment (Note 5)		23,640		33,202
Mineral properties (Note 6)		2,385,410		2,580,601
Other assets		3,602		3,591
	$	2,565,175	$	2,684,706
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	$	100,951	$	111,839
Convertible note payable (Note 14)		405,224		504,813
Due to related parties (Note 9)		155		51,449
		506,330		668,101
Shareholders' equity				
Share capital (Note 8(b))		7,688,065		6,371,766
Contributed surplus (Note 8(b))		765,666		619,144
Subscriptions received in advance (Note 8(b))		-		45,000
Equity component of convertible note payable (Note 14)		14,537		18,978
Accumulated other comprehensive income (loss) (Note 7)		13,192		(2,620)
Deficit		(6,422,615)		(5,035,663)
		2,058,845		2,016,605
	$	2,565,175	$	2,684,706

Nature and continuance of operations (Note 1)
Commitments (Note 13)
Subsequent Events (Note 15)

Approved by the Directors:

"William B. Henderson" Director *"Warren Stanyer"* Director

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

NEVADA SUNRISE GOLD CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30

	2011	2010
GENERAL AND ADMINISTRATIVE EXPENSES		
Accretion (Note 14)	$ 16,550	$ 9,334
Business insurance	34,579	42,011
Consulting	255,777	198,608
Depreciation	11,663	14,250
Exploration costs (Note 6)	197,814	25,874
Marketing	52,828	115,856
Professional fees	71,506	77,598
Property investigation	-	18,546
Rent and office expenses	107,323	122,735
Salaries and benefits	182,290	197,590
Stock-based compensation (Note 8(d))	108,981	196,457
Travel and entertainment	14,789	15,394
Loss before other items	(1,054,100)	(1,034,253)
OTHER ITEMS		
Write-off of Mineral Properties (Note 6)	(283,243)	-
Foreign exchange (loss) gain	(5,380)	8,443
Interest expense	(44,229)	(42,069)
	(332,852)	(33,626)
Loss for the year	(1,386,952)	(1,067,879)
Deficit, beginning of year	(5,035,663)	(3,967,784)
Deficit, end of year	$ (6,422,615)	$ (5,035,663)
Basic and diluted loss per common share	$ (0.03)	$ (0.02)
Weighted average number of common shares outstanding	51,799,348	44,198,792

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

NEVADA SUNRISE GOLD CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,386,952)	$ (1,067,879)
Items not involving cash		
Accretion	16,550	9,334
Depreciation	11,663	14,250
Stock-based compensation	108,981	196,457
Write down of Mineral Properties	283,243	-
Net change in non-cash working capital		
Other current assets	(7,763)	25,765
Accounts payable and accrued liabilities	(11,240)	(16,084)
Net cash used in operating activities	(985,518)	(838,157)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in mineral properties	(88,382)	(659,085)
Net cash used in investing activities	(88,382)	(659,085)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	1,289,862	1,229,523
Subscriptions received in advance	-	45,000
Proceeds from convertible note payable	-	520,965
Borrowing (repayment) on note payable	(100,024)	(208,367)
Due to related parties	(51,984)	(95,173)
Other assets	-	-
Net cash provided by financing activities	1,137,854	1,491,948
Effect of exchange rate on cash	10,705	16,035
Net increase in cash	74,659	10,741
Cash, beginning of year	62,680	51,939
Cash, end of year	$ 137,339	$ 62,680
Interest paid	$ 49,340	$ 14,933
Income taxes paid	$ -	$ 2,084

Supplemental disclosure with respect to cash flows (Note 11)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Nevada Sunrise Gold Corporation (the "Company") was incorporated under the laws of British Columbia on April 3, 2007. On May 15, 2007 the Company acquired all of the issued and outstanding shares of Intor Resources Corporation ("Intor") by way of reverse takeover. Intor was incorporated under the laws of the State of Nevada on September 7, 2004 as Nevada Sunrise Exploration Limited. The name of that company was changed to Intor Resources Corporation in February, 2005. The Company's principal business activities include the acquisition, exploration and development of mineral properties.

The Company filed a prospectus on June 25, 2008, and an amendment to this prospectus on August 22, 2008, in connection with an initial public offering of the Company's common shares ("Common Shares"). On September 18, 2008, the Company closed its initial public offering and its Common Shares began trading on September 22, 2008 on the TSX Venture Exchange using the symbol NEV.

The Company is in the process of exploring and developing its mineral properties. The recoverability of the amounts shown for mineral properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

As at September 30, 2011 the Company had an accumulated deficit of $ 6,422,615 (2010 - $5,035,663) and a working capital deficiency of $353,807 (2010 – $600,789). In addition, the Company has not generated any revenues from operations. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its mineral properties, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Intor. The Company's year-end is September 30. All inter-company balances and transactions have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of estimates include the recoverability and impairment of mineral properties, inputs used in the calculation of stock-based compensation, inputs used in the determination of the debt and equity components of the convertible note payable, the fair value of warrants, and the valuation allowance applied to future income tax assets. Actual results could differ from these estimates.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted-average number of shares outstanding during the year.

Equipment

Equipment is recorded at cost less accumulated depreciation. Depreciation is recognized using the straight-line method over the following terms:

Furniture and equipment	7 years
Computer equipment and software	3 years
Tenant improvements	5 years
Field equipment	7 years

Foreign currency translation

The Company's functional currency is the Canadian dollar. Its subsidiary's functional currency is the United States dollar and is translated into the Canadian dollar equivalent using the current rate method. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Income and expense items are translated at rates approximating those in effect at the transaction dates and shareholders' equity is translated at appropriate historical rates. Gains and losses arising from translation of the financial statements are disclosed as a separate component of shareholders' equity. Exchange gains and losses arising on transactions are included in the statement of operations.

Mineral interests

All costs related to the acquisition of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Mineral interests (cont`d…)

Exploration costs are expensed as incurred as the Company is in the process of exploring its mineral tenements and has not yet determined whether these properties contain ore reserves that are economically recoverable. If and when the Company's management determines that economically extractable proven or probable mineral reserves have been established, the subsequent costs incurred to develop such property, including costs to further delineate the ore body will be capitalized.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any significant asset retirement obligations for the years presented.

Long-lived assets

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the assets may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds the fair value of the asset.

Income taxes

The Company accounts for income taxes under the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading. Due from related parties is classified as loans and receivables. Accounts payable and accrued liabilities, convertible note payable, and due to related parties are classified as other liabilities, which are measured at amortized cost.

In addition, the current accounting standards require disclosure about fair value measurement of financial instruments and liquidity risk disclosures based on a three level hierarchy that reflects the significance of the inputs used in making fair value measurements, namely:

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont`d…)

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - inputs, other than quoted prices included in Level 1 for which all significant outputs are observable, either directly or indirectly; and
Level 3 - inputs that are unobservable and significant to the overall fair value measurement

Disclosures required by the amendment to this accounting standard are included in Note 4.

Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the vesting period of the stock options.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Future accounting changes

International financial reporting standards ("IFRS")

The CICA has adopted a strategic plan whereby the Canadian accounting standards will be converged with International Financial Reporting Standards (IFRS) with the requirement to report under the new standards for fiscal years beginning on or after January 1, 2011. The adoption date for the Company of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. At this time, the most significant impacts appear to be related to potential reclamation and closure obligations, the calculation of stock-based compensation and, the accounting for future business combinations. The Company is prepared to report under IFRS effective October 1, 2011.

3. CAPITAL MANAGEMENT

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. In the management of capital, the Company includes components of shareholders' equity.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds 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.

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 year ended September 30, 2011. The Company is not subject to externally imposed capital requirements.

4. FINANCIAL INSTRUMENTS

The fair value of the Company's due from related parties, accounts payable, and accrued liabilities, convertible note payable, and due to related parties approximate carrying value, which is the amount recorded on the consolidated balance sheet. The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets or liabilities.

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

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's management believes it has no significant credit risk.

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 September 30, 2011, the Company had a cash balance of $137,339 (September 30, 2010 - $62,680) to settle current liabilities of $506,330 (September 30, 2010 - $668,101). The Company is actively targeting sources of additional financing which would assure continuation of the Company's operations and exploration programs, however there can be no assurance that the Company's efforts will be successful.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has cash balances and an interest-bearing convertible note payable. The interest charged on the notes is at fixed rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions or short-term debt instruments issued by the federal government. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of September 30, 2011, the Company did not have any investments in investment-grade short-term deposit certificates or short-term debt issued by the federal government.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and accounts payable, accrued liabilities, and convertible note payable that are denominated in US Dollars (US).

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

4. FINANCIAL INSTRUMENTS (cont'd…)

Sensitivity Analysis

The Company operates in the United States and is exposed to risk from changes in the U.S. dollar. A 10% fluctuation in the U.S. dollar against the Canadian dollar would affect accumulated other comprehensive income (loss) for the period by approximately $34,000.

5. EQUIPMENT

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$ 18,300	$ 10,393	$ 7,907	$ 18,300	$ 8,072	$ 10,228
Computer equipment and software	15,887	15,060	827	15,887	12,028	3,859
Tenant improvements	26,339	18,424	7,915	26,339	13,638	12,701
Field equipment	11,740	5,866	5,874	11,740	4,342	7,398
	72,266	49,743	22,523	72,266	38,080	34,186
Foreign currency variance	(3,539)	(4,656)	1,117	(3,773)	(2,789)	(984)
	$ 68,727	$ 45,087	$ 23,640	$ 68,493	$ 35,291	$ 33,202

6. MINERAL PROPERTIES

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous historical title conveyance characteristic of many mineral claims. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its interests are in good standing. The mineral property interests in which the Company has committed to earn an interest are located in the United States.

	Golden Arrow	Iron Point	Juniper	Pinnacle	Total
Balance, September 30, 2009	**$ 1,811,341**	**$ 107,808**	**$ 116,567**	**$ -**	**$ 2,035,716**
Acquisition costs	575,310	40,317	43,458	-	659,085
Foreign currency variance	(101,479)	(6,113)	(6,608)	-	(114,200)
Balance as at September 30, 2010	**2,285,172**	**142,012**	**153,417**	**-**	**2,580,601**
Acquisition costs	53,805	19	20	34,538	88,382
Write-off of acquisition costs	-	(136,155)	(147,088)	-	(283,243)
Foreign currency variance	10,281	(5,876)	(6,349)	1,614	(330)
Balance as at September 30, 2011	**$ 2,349,258**	**$ -**	**$ -**	**$ 36,152**	**$ 2,385,410**

6. MINERAL PROPERTIES (cont'd...)

Exploration costs:

	Golden Arrow	Iron Point	Juniper	Kinsley Mountain	Pinnacle	Total
Cumulative Exploration Costs at September 30, 2009	**$ 1,527,516**	**$ 2,468**	**$ 9,860**	**$ 22,566**	**$ -**	**$ 1,562,410**
Year ended September 30, 2010						
Drilling	-	-	-	-	-	-
Geological survey	16,851	-	-	-	-	16,851
Field costs	1,892	-	-	-	-	1,892
Consulting	6,390	-	741	-	-	7,131
Exploration costs	**25,133**	**-**	**741**	**-**	**-**	**25,874**
Year ended September 30, 2011						
Drilling	-	-	-	-	-	-
Geological survey	186,540	-	-	-	-	186,540
Field costs	1,826	-	-	-	-	1,826
Consulting	9,448	-	-	-	-	9,448
Exploration costs	**197,814**	**-**	**-**	**-**	**-**	**197,814**
Total Cumulative Exploration Costs at September 30, 2011	**$ 1,750,463**	**$ 2,468**	**$ 10,601**	**$ 22,566**	**$ -**	**$ 1,786,098**

Golden Arrow, Nevada

The Company has a mining lease and two quitclaim deeds covering a certain area of the Golden Arrow property. The mining lease agreement, which requires annual lease payments of US$50,000, is set to expire in December 2016. However, the Company may extend the mining lease for additional one year terms by paying escalating annual lease payments.

In March 2010, the Company entered into an agreement with Animas Resources Ltd ("Animas"), whereby the Company agreed to grant Animas an option to acquire a 51% interest in the Golden Arrow property. Animas would have exercised this option by spending an aggregate $3,500,000 in specified exploration expenditures within three years, including certain expenditures which were to occur in 2010. In March 2011, Animas terminated the Mining Lease Option for the Golden Arrow property.

Iron Point and Juniper, Nevada

The Company had mining lease agreements with a related party for two properties: Iron Point and Juniper. The Iron Point and Juniper agreements included a net smelter royalty on production of 2% and required advance minimal royalty of US$100,000 per property. Both the Iron Point and the Juniper agreements were terminated June 2011 and all related acquisition costs have been expensed.

6. MINERAL PROPERTIES (cont'd...)

Kinsley Mountain, Nevada

The Company also has a mining lease agreement with a company controlled by an officer and director for the Kinsley Mountain Property. The Kinsley Mountain agreement has a sliding scale net smelter royalty rate on production from 2% to 5% depending on the price of gold and requires an annual advance minimum royalty. In 2011, the Company and the related party amended certain provisions of the mining agreement including the expiration date and the timing of advance minimum royalty payments for no additional consideration. The agreement now runs through June 2020; however Company has the right to terminate the mining lease with the related party upon thirty days written notice; or to extend the lease beyond 2020 provided the Company continues to make advance minimum royalty payments.

In March 2010, the Company entered into an agreement with Animas Resources Ltd ("Animas"), whereby the Company agreed to grant Animas an option to acquire a 51% interest in the Kinsley Mountain property. Effective September 2011, Animas conveyed its interest in the agreement to Pilot Gold USA Inc. ("Pilot Gold"). Pursuant to the agreement, Pilot Gold has exclusive right to acquire a 51% interest in the Kinsley Mountain Property by incurring an aggregate US$1.18 million in exploration expenditures, including all annual property maintenance fees, advance royalty payments, and mining lease payments, by March 2013. In addition, Pilot Gold may acquire an additional 14% interest in the property by incurring an additional US$3 million in exploration expenditures within 5 years of meeting the initial expenditure requirement.

The annual advance minimum royalty for the Kinsley property, which was paid by Animas, totaled US$100,000 in 2011. Future advance minimum royalty payments, which pursuant to agreement are to be paid by Pilot Gold, are as follows:

June 1:	US$ Advance Minimum Royalty
2012-2016	$50,000
2017	75,000
2018	100,000
2019	150,000
2020 (and each thereafter)	200,000

Pinnacle, Nevada

Effective January 2011, the Company entered a mining lease agreement with a company controlled by an officer and director covering the Pinnacle property. The agreement includes a sliding scale net smelter royalty on production from 2.5% to 5% depending on the price of gold. The Company can terminate the agreement by giving written notice prior to July 1 of the year of its determination and executing a quitclaim deed conveying its interest in the property to the related party. The agreement requires future advance minimum royalty payments as follows:

	US$ Advance Minimum Royalty
2011 (quarterly instalments)	$ 7,500
2012 (quarterly instalments)	45,000
2013 (quarterly instalments)	60,000
2014-2020 (due July 1 of each year)	60,000

6. MINERAL PROPERTIES (cont'd...)

Pinnacle, Nevada (cont`d...)

In addition, the Company must pay annual property maintenance fees and a minimum work commitment of US$100,000 by the end of 2012; US$100,000 each year from 2013 through 2015; and US$250,000 per year from 2016 through 2020.

7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is the change in shareholders' equity during a period from transactions and other events from non-owner sources. The Company includes the account "accumulated other comprehensive income (loss)" in the shareholders' equity section of the consolidated balance sheet.

Accumulated other comprehensive income (loss) is comprised of the following:

Balance as at September 30, 2009	$ 70,296
Cumulative translation adjustment	(72,916)
Balance as at September 30, 2010	(2,620)
Cumulative translation adjustment	15,812
Balance as at September 30, 2011	$ 13,192

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized: Unlimited common shares, without par value

b) Issued

	Share Capital		Contributed Surplus
	Number of Shares	Amount	Amount
Balance as at September 30, 2009	31,936,979	$ 5,151,939	$ 412,992
Private Placements	13,979,530	1,296,930	-
Share issuance costs, private placements	-	(102,603)	9,695
Warrants exercised	170,000	25,500	-
Stock-based compensation	-	-	196,457
Balance, September 30, 2010	46,086,509	6,371,766	619,144
Private Placements	14,812,000	1,040,600	-
Share issuance costs, private placements	-	(78,801)	18,563
Warrants exercised	2,363,334	354,500	-
Equity component of convertible note payable	-	-	18,978
Stock-based compensation	-	-	108,981
Balance as at September 30, 2011	63,261,843	$ 7,688,065	$ 765,666

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont`d...)

b) Issued (cont`d...)

In July and September 2011, the Company closed two tranches of a non-brokered private placement consisting of a total of 12,812,000 units at a price of $0.05 per unit, yielding the Company gross proceeds of $640,600. Each unit issued in connection thereof consisted of one Common Share of the Company and one-half common share purchase warrant. Each whole common share purchase warrant is exercisable to purchase an additional Common Share at a price of $0.10 per Common Share for a period of 18 months from the date of issuance. In connection with this financing, the company paid certain parties a finder's fee of $40,317 and issued a total of 991,200 common share purchase warrants exercisable at a price of $0.10 per Common Share for a period of 18 months. The fair value of such warrants, $18,563, was estimated using the Black-Sholes option pricing model with a weighted average risk free rate of 1.49% and 1.5%, an expected life of 1.5 years, expected volatility of 115% and an expected dividend yield of 0%. In addition, other offering costs totaling $11,711 were incurred in connection with the private placement. All shares and warrants issued pursuant to the private placement were subject to a four-month hold period.

In December 2010, the Company closed a non-brokered private placement consisting of 2,000,000 units at a price of $0.20 per unit, yielding the Company gross proceeds of $400,000. Each unit issued in connection thereof consists of one Common Share and one common share purchase warrant. Each common share purchase warrant is exercisable to purchase an additional Common Share at a price of $0.30 per Common Share until December 3, 2012, subject to acceleration on 30-days notice if, on any day on or after April 4, 2011 and before the expiry date of the Warrants, the Company's common shares trade at a price greater than $0.50 for a period of 10 or more trading days. All shares and warrants issued pursuant to the private placement were subject to a four-month hold period. The Company incurred $8,210 in offering costs in connection with this private placement.

Between October 1, 2010 and December 31, 2010, a total of 2,363,334 common share purchase warrants of the Company were exercised at a price of $0.15 per share, yielding the Company $354,500. Of these proceeds, $45,000 was received in September 2010 and therefore was included in Subscriptions Received In Advance as at September 30, 2010.

In March and April 2010, the Company completed a private placement in two closings which totaled 5,979,530 Units at a price of $0.15 per Unit, yielding the Company net proceeds of $810,280, after $86,650 of issuance costs.

Each Unit consists of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable to purchase an additional common share at a price of $0.25 for a period of 12 months from the date of issuance. The first closing, which closed in March 2010, consisted of 3,948,582 Units at a price of $0.15 per unit, yielding the Company net proceeds of $545,612. The securities issued in the first close are subject to a four month hold period which expired August 1, 2010. The second closing, which closed in April 2010, consisted of 2,030,948 Units at a price of $0.15 per unit for net proceeds of $264,668. The securities issued in the second close are subject to a four month hold period which expired August 29, 2010. The Company issued warrants to purchase 190,889 common shares exercisable at $0.25 per common share for a period of 12 months, in connection with the private placements. The fair value of the finders' warrants, $9,695, was estimated using the Black-Scholes option pricing model with a risk free rate of 2.75%, an expected life of 1 year, expected volatility of 115% and an expected dividend yield of 0%.

A total of 170,000 common share purchase warrants were exercised during the year ended September 30, 2010, for net proceeds of $25,500. Also, subscriptions received in advance at September 30, 2010 of $45,000 represents funds received by the Company prior to September 30, 2010 related to common share purchase warrants, for which shares were issued subsequent to September 30, 2010.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd…)

c) Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance as at September 30, 2009	6,300,000	$	0.30
Warrants issued	7,180,654		0.19
Warrants expired	(6,300,000)		0.30
Warrants exercised	(170,000)		0.15
Balance as at September 30, 2010	7,010,654		0.20
Warrants issued	9,397,200		0.14
Warrants expired	(4,647,320)		0.22
Warrants exercised	(2,363,334)		0.15
Balance as at September 30, 2011	9,397,200	$	0.14

At September 30, 2011, warrants were outstanding enabling holders to acquire Common Shares as follows:

Number of Warrants		Exercise Price	Expiry Date
2,000,000		$ 0.30	December 3, 2012
6,386,000	(1)	0.10	January 25, 2013
1,011,200	(2)	0.10	March 2, 2013

(1) Includes 981,000 finders' warrants.
(2) Includes 10,200 finders' warrants.

d) Options

The Company has a stock option plan whereby it may grant options to employees, directors, consultants and certain other service providers. The maximum aggregate number of shares that may be reserved for issuance underthe plan is 10% of the Outstanding Shares, less any common shares reserved for issuance under share options granted outside of this plan. Options are exercisable for a maximum of 10 years. Option shares are subject to vesting requirements as determined by the Company's Board of Directors.

The Company recognizes stock-based compensation expense for all stock options based on the fair value based method of accounting. The fair value attributable to options vesting during the period was $108,981 for the year ended September 30, 2011 (2010 - $196,457). No options were granted during the fiscal year ended September 30, 2011. The weighted average fair value of options granted during 2010 was $0.11.

Stock option transactions and the number of stock options outstanding are summarized as follows:

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd…)

d) Options (cont`d...)

	Number of Options	Weighted Average Exercise Price
Balance as at September 30, 2009	2,525,000	0.25
Options issued	1,850,000	0.22
Options expired	(750,000)	0.24
Options exercised	-	-
Balance as at September 30, 2010	3,625,000	0.24
Options issued	-	-
Options cancelled	(750,000)	0.18
Options exercised	-	-
Balance as at September 30, 2011	2,875,000	$ 0.25

The following weighted average assumptions were used for the Black-Scholes valuation of the stock options granted during the period:

	September 30, 2011	September 30, 2010
Risk-free interest rate	-	2.69%
Expected life of options	-	5 years
Annualized volatility	-	115%
Dividends	-	-

At September 30, 2011, stock options were outstanding enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Number of options Currently Exercisable	Expiry Date
1,850,000	$ 0.25	1,850,000	September 18, 2013
100,000	0.25	94,450	November 5, 2013
25,000	0.25	20,825	March 5, 2014
900,000	0.25	427,778	July 29, 2015

9. RELATED PARTY TRANSACTIONS

		2011		2010
Professional fees to accounting firm in which officer is a member	$	73,388	$	73,259
Exploration costs to a company owned by a former director		-		234
Affiliated company for advance minimum royalty payments		29,604		-
Travel expense to an affiliated company		7,178		-
Stock-based compensation to directors and officers		66,245		101,324
Exploration costs to a company owned by a family member of an officer and director		-		4,406

Due from Related Parties		**2011**		**2010**
Affiliated company for general and administrative expense reimbursement	$	2,789	$	-
Total due from Related Parties	$	2,789	$	-

Due to Related Parties		**2011**		**2010**
Affiliated company for advance royalties on mining leases and expenses paid on behalf of Company	$	-	$	51,449
Accounting Firm in which an officer is a member for accounting services		155		-
Total due to Related Parties	$	155	$	51,449

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties. The amounts due to related parties are non-interest bearing, with no fixed terms of repayment. Repayment is expected within the next fiscal year and therefore has been classified as a current liability in these financial statements.

10. INCOME TAXES

a) A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2011	2010
Loss before income taxes	$ (1,386,952)	$ (1,067,879)
Expected tax recovery	$ (288,327)	$ (308,350)
Deductible items for tax purposes	(87,010)	(70,050)
Differences in foreign tax rates	(146,587)	(22,451)
Unrecognized benefits of non-capital losses	521,924	400,851
Total income recovery	$ -	$ -

b) Details of future income tax assets (liabilities) are as follows:

	2011	2010
Future tax assets:		
Equipment	$ -	$ (11,000)
Resource deductions	36,000	101,000
Share issuance costs	53,000	72,000
Non-capital loss carryforwards	1,777,000	2,975,000
	1,866,000	3,137,000
Valuation allowance	(1,866,000)	(3,137,000)
Net future tax assets	$ -	$ -

The Company has non-capital losses of approximately $2,050,000 in Canada and $3,700,000 in the United States which may be carried forward and applied against taxable income in future years. These losses, if unutilized, will expire through 2031. Subject to certain restrictions, the Company has further resource development and exploration expenditures totalling approximately $2,700,000 available to reduce taxable income of future years. The future income tax benefits of these losses, resource deductions and other tax assets have not been reflected in these financial statements and have been offset by a valuation allowance.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the fiscal year ended September 30, 2011, include:

a) The reallocation of the equity component of convertible note payable of $18,978 to contributed surplus.

b) The grant of warrants with a fair value of $18,563 (Note 8) which was estimated using the Black-Scholes option pricing model.

c) Subscriptions received in advance totaling $45,000 were allocated to share capital upon issuance of 300,000 common shares which were issued in relation to the exercise of 300,000 share purchase warrants at a price of $0.15.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

Significant non-cash transactions for the fiscal year ended September 30, 2010 include:

a) In April 2010, a director applied a US$29,350 promissory note, to the purchase of 198,548 Units at a price of $0.15 per Unit.

12 SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the exploration and development of mineral properties. All of the Company's equipment and mineral properties are located in the United States.

13. COMMITMENTS

The Company has entered into an operating lease agreement for its office premises in Auburn, California which runs through December 2012. The annual commitments under this lease are as follows:

Fiscal Year	Annual Commitment
2012	$ 41,550
2013	10,464

14. CONVERTIBLE NOTE PAYABLE

In March 2010, the Company received US$500,000 in exchange for a convertible promissory note. The note, which was due to mature on March 25, 2011, bore interest at 10% per annum and was convertible into units of the Company at a price of $0.17 per unit. Each unit consists of one Common Share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire an additional Common Share at $0.25 per Common Share, exercisable until March 25, 2011. Proceeds from the convertible promissory note were used to make an option payment on the Company's Golden Arrow mineral property pursuant to the Golden Arrow mining lease agreement. The note is secured by a first charge over the Company's interest in the mining lease. In March, 2011, the Company executed an amendment to the convertible promissory note. Pursuant to the terms of the amendment, the Company repaid US$100,000 in principal and US$50,000 in interest in March 2011. The maturity of the remaining principle amount, US$400,000, is extended to March 25, 2012 and continues to bear interest at 10% per annum and is convertible into units of the Company at a price of $0.07 per unit. Each unit consists of one Common Share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional Common Share at $0.12 per Common Share, exercisable for 12 months from the date of issue. The amended convertible promissory note may be prepaid in advance by the Company, provided that upon prepayment, the Company will grant 200,000 common share purchase warrants to the lender. Each such warrant will entitle the holder to acquire an additional Common Share at a price of $0.12 per Common Share, exercisable for a period of 12 months from the date of issue. In relation to the convertible promissory note, the Company recorded accretion of $16,550 (2010- $9,334).

The debt component of the amended convertible promissory note is calculated as the present value of the debt and required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible notes payable at the time the notes were issued. On issuance, the relative fair value of $14,537 attributed to the equity component of the amended convertible promissory note was classified as the equity component of convertible notes payable.

15. SUBSEQUENT EVENT

In January 2012, the Company executed a second amendment to the outstanding convertible promissory note ("Second Amendment") (see Note 14). Pursuant to the Second Amendment, the Company will repay principal of US$110,000 and interest of US$40,000 in three installments of US$50,000 each in January, February and March 2012. The maturity date of the remaining principal balance, US$290,000, is extended to March 25, 2013. The convertible promissory note may be pre-paid in advance by the Company without penalty. In addition, the convertible promissory note is convertible into units of the Company at a deemed price of $0.07 per unit, each unit issued in connection thereof consists of one Common Share and one-half common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional Common Share at $0.12 per Common Share, exercisable until March 25, 2013. The loan continues to bear simple interest at 10% per annum payable upon the earlier of maturity or conversion.