INTERNATIONAL TOWER HILL MINES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

(Expressed in US Dollars)

Three Months Ended March 31, 2012 and February 28, 2011

<u>Corporate Head Office</u>

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INTERNATIONAL TOWER HILL MINES LTD.

March 31, 2012 and February 28, 2011

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INTERNATIONAL TOWER HILL MINES LTD.
(An Exploration Stage Company)
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
(Expressed in US Dollars - Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents	$ 39,757,945	$ 54,712,073
Marketable securities	322,290	297,443
Accounts receivable	97,599	460,970
Advance to contractors	951,500	480,000
Prepaid expenses	169,737	182,747
Total current assets	41,299,071	56,133,233
Property and equipment	117,068	124,981
Capitalized acquisition costs (note 4)	55,045,871	53,045,871
Total assets	$ 96,462,010	$ 109,304,085
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,764,484	$ 10,319,615
Total current liabilities	3,764,484	10,319,615
Non-current liabilities		
Derivative liability (note 5)	23,200,000	20,800,000
Total liabilities	26,964,484	31,119,615
Shareholders' equity		
Share capital	207,186,847	207,186,847
Contributed surplus	21,347,932	19,382,616
Accumulated other comprehensive income	4,313,830	3,524,125
Deficit accumulated during the exploration stage	(163,351,083)	(151,909,118)
Total shareholders' equity	69,497,526	78,184,470
Total liabilities and shareholders' equity	$ 96,462,010	$ 109,304,085

Nature of Operations and Liquidity (note 1)
Commitments (note 9)

On behalf of the Board:

"Anton Drescher"(signed) Director	*"Timothy Haddon"(signed)* Director
Mr. Anton J. Drescher	Mr. Timothy J. Haddon

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

INTERNATIONAL TOWER HILL MINES LTD.
(An Exploration Stage Company)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in US Dollars - Unaudited)

	Three months ended	
	March 31, 2012	**February 28, 2011**
Operating expenses		
Consulting fees	$ 260,886	$ 133,382
Depreciation	7,913	8,395
Insurance	68,161	63,428
Investor relations	113,365	213,279
Mineral property exploration	5,121,876	6,860,752
Office	44,389	77,303
Other	21,978	35,347
Professional fees	127,106	152,795
Regulatory	83,607	10,772
Rent	64,785	47,612
Travel	71,404	60,596
Wages and benefits	3,262,636	715,435
Total operating expenses	(9,248,106)	(8,379,096)
Other income (expense)		
Unrealized loss on derivative liability	(2,400,000)	-
Gain (loss) on foreign exchange	(20,420)	(149,222)
Interest income	84,613	265,321
Income from mineral property earned in	141,948	-
Spin-out cost	-	(58,548)
Total other income (expense)	(2,193,859)	57,551
Loss from continuing operations	(11,441,965)	(8,321,545)
Net loss for the period	(11,441,965)	(8,321,545)
Other comprehensive income (loss)		
Unrealized loss on marketable securities	(22,472)	(9,315)
Exchange difference on translating foreign operations	812,177	7,528,795
Total other comprehensive income for the period	789,705	7,519,480
Comprehensive loss for the period	$ (10,652,260)	$ (802,065)
Basic and fully diluted loss per share from continuing operations	$ (0.13)	$ (0.10)
Weighted average number of shares outstanding	86,683,919	85,412,820

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

INTERNATIONAL TOWER HILL MINES LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in US Dollars)

	Number of shares (new)	Share capital (new)	Contributed surplus	Accumulated other comprehensive income/(loss)	Deficit	Total
Balance, November 30, 2010	84,943,155	$ 197,827,051	$ 13,789,881	$ (406,320)	$ (87,297,581)	$ 123,913,031
Exercise of options	1,010,000	3,296,959	-	-	-	3,296,959
Reallocation of contributed surplus	-	1,774,286	(1,774,286)	-	-	-
Share issuance costs	-	(35,640)	-	-	-	(35,640)
Unrealized gain/(loss) on available-for-sale securities	-	-	-	(9,315)	-	(9,315)
Exchange difference on translating foreign operations	-	-	-	7,528,795	-	7,528,795
Net loss	-	-	-	-	(8,321,545)	(8,321,545)
Balance, February 28, 2011	85,953,155	202,862,656	12,015,595	7,113,160	(95,619,126)	126,372,285
Private placement	230,764	1,924,702	-	-	-	1,924,702
Exercise of options	500,000	1,617,887	-	-	-	1,617,887
Stock based compensation	-	-	8,153,591	-	-	8,153,591
Reallocation of contributed surplus	-	786,570	(786,570)	-	-	-
Share issuance costs	-	(4,968)	-	-	-	(4,968))
Unrealized gain/(loss) on available-for-sale securities	-	-	-	(502,958)	-	(502,958)
Exchange difference on translating foreign operations	-	-	-	(3,086,077)	-	(3,086,077)
Net loss	-	-	-	-	(56,289,992)	(56,289,992)
Balance, December 31, 2011	86,683,919	207,186,847	19,382,616	3,524,125	(151,909,118)	78,184,470
Stock based compensation	-	-	1,965,316	-	-	1,965,316
Unrealized gain/(loss) on available-for-sale securities	-	-	-	(22,472)	-	(22,472)
Exchange difference on translating foreign operations	-	-	-	812,177	-	812,177
Net loss	-	-	-	-	(11,441,965)	(11,441,965)
Balance, March 31, 2012	86,683,919	$ 207,186,847	$ 21,347,932	$ 4,313,830	$ (163,351,083)	$ 69,497,526

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

INTERNATIONAL TOWER HILL MINES LTD.
(An Exploration Stage Company)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in US Dollars - Unaudited)

	Three months ended	
	March 31, 2012	**February 28, 2011**
Operating Activities		
Loss for the period	$ (11,441,965)	$ (8,321,545)
Add items not affecting cash:		
Depreciation	7,913	8,395
Stock based compensation	1,965,316	-
Unrealized (gain) loss on derivative liability	2,400,000	-
Income from mineral property earned in	(41,948)	-
(Gain) loss on foreign exchange	-	149,222
Changes in non-cash items:		
Accounts receivable	368,450	(54,065)
Prepaid expenses	15,175	2,567
Advance to contractors	(471,500)	-
Accounts payable and accrued liabilities	(6,565,044)	(18,110)
Cash used in operating activities	(13,763,603)	(8,233,536)
Financing Activities		
Issuance of share capital	-	3,296,959
Share issuance costs	-	(35,640)
Cash provided by financing activities	-	3,261,319
Investing Activities		
Capitalized acquisition costs	(2,000,000)	
Expenditures on property and equipment, net	-	(43,282)
Cash used in investing activities	(2,000,000)	(43,282)
Effect of foreign exchange on cash	809,475	7,258,121
Decrease in cash and cash equivalents	(14,954,128)	2,242,622
Cash and cash equivalents, beginning of the period	54,712,073	120,527,952
Cash and cash equivalents, end of the period	$ 39,757,945	$122,770,574

Supplemental cash flow information (note 10)

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

1. GENERAL INFORMATION, NATURE AND CONTINUANCE OF OPERATIONS

International Tower Hill Mines Ltd. ("ITH" or the "Company") is incorporated under the laws of British Columbia, Canada. The Company's head office address is 2300-1177 West Hastings Street, Vancouver, British Columbia, Canada. International Tower Hill Mines Ltd. consists of ITH and its wholly owned subsidiaries Tower Hill Mines, Inc. ("TH Alaska") (an Alaska corporation), Tower Hill Mines (US) LLC ("TH US") (a Colorado limited liability company), Livengood Placers, Inc. ("LPI") (a Nevada corporation), and 813034 Alberta Ltd. (an Alberta corporation). The Company is in the business of acquiring, exploring and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At March 31, 2012, the Company was in the exploration stage and controls a 100% interest in its Livengood project in Alaska, U.S.A.

These unaudited condensed consolidated interim financial statements have been prepared on a going-concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral property interests. The recoverability of amounts shown for capitalized acquisition costs is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of capitalized acquisition costs. The success of the above initiatives cannot be assured. In the event that the Company is unable to obtain the necessary financing in the short-term, it may be necessary to defer certain discretionary expenditures and other planned activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the period ended December 31, 2011. The Board of Directors approved these condensed consolidated interim financial statements issued in accordance with US GAAP on March 12, 2013.

The Company changed its fiscal year end from May 31 to December 31 during 2011. This change was made to better align the Company's financial reporting with its operational and budgeting cycle as well as to align the financial reporting to those of other industry participants in the mineral resource exploration, development and production sectors. As a result of the Company changing its fiscal year end to December 31, these condensed consolidated interim financial statements are for the three month period ended March 31, 2012 and are presented in comparative form with the three month period ended February 28, 2011. Due to the change in year end, amounts presented in these condensed consolidated interim financial statements may not be comparable and therefore these condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the period ended December 31, 2011. Amounts presented in these interim condensed consolidated financial statements are presented in US dollars unless otherwise noted. References to C$ refer to Canadian dollars.

Basis of consolidation

These consolidated financial statements include the accounts of ITH and its wholly owned subsidiaries TH Alaska, TH US, LPI and 813034 Alberta Ltd. All intercompany transactions and balances have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Significant judgments, estimates and assumptions

The preparation of financial statements in accordance with US GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. These judgments, estimates and assumptions are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. While management believes the estimates to be reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

The areas which require significant judgment and estimates that management has made at the financial reporting date, that could result in a material change to the carrying amounts of assets and liabilities, in the event actual results differ from the assumptions made, relate to, but are not limited to the following:

<u>Significant estimates</u>
a) the fair value determination and inputs used in the valuation of the derivative liability;
b) the inputs used in determining the fair value of share-based payments upon granting of stock options;
c) amounts of provisions, if any, for environmental rehabilitation and restoration.

<u>Significant judgments</u>
a) the determination of functional currencies; and
b) the analysis of resource calculations, drill results, labwork, etc. which can impact the Company's assessment of impairments, and calculation of provisions, if any, for environmental rehabilitation and restoration.

Cash and cash equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less, and which are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Marketable securities

Marketable securities held in companies with an active market are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value in the financial statements with unrealized gains and losses recorded in accumulated other comprehensive income. Accumulated unrealized gains and losses are recognized in the statement of operations upon the sale of the security.

Property and equipment

On initial recognition, property and equipment are valued at cost. Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recorded over the estimated useful life of the assets at the following annual rates:

Computer equipment - 30% declining balance;
Computer software - 3 years straight line;
Furniture and equipment - 20% declining balance; and
Leasehold improvements - straight-line over the lease term.

Additions during the year are depreciated at one-half the annual rates. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Mineral properties and exploration and evaluation expenditures

The Company's mineral project is currently in the exploration and evaluation phase. Mineral property acquisition costs are capitalized when incurred. Mineral property exploration costs are expensed as incurred. At such time that the Company determines that a mineral property can be economically developed in accordance with US GAAP, subsequent mineral property expenses will be capitalized during the development of such property.

The Company assesses interests in exploration properties for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. Impairment analysis includes assessing the carrying amount of mineral properties and future obligations compared to estimated future cash flows.

Asset retirement obligations

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate and recorded at the time environmental disturbance occurs. The provision for closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports and accreted to full value over time through periodic charges to income. The Company does not have any material provisions for environmental rehabilitation as of December 31, 2012.

Derivative

Derivative financial liabilities include the Company's future contingent payment valued using estimated future gold prices. Derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit and loss.

Income taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion or the entire deferred tax asset will not be recognized.

Net loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or contracts that may require the issuance of common shares in the future were converted, unless the impact is anti-dilutive.

Stock-based compensation

The Company follows the provisions of ASC 718 "Compensation - Stock Compensation", which establishes accounting for equity based compensation awards to be accounted for using the fair value method. The Company uses the Black-Scholes option pricing model to determine the grant date fair value of the awards. Compensation expense is measured at the grant date and recognized over the requisite service period, which is generally the vesting period.

(Expressed in US dollars - Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Other comprehensive income

Components of other comprehensive income/loss consist of unrealized gains/losses on available-for-sale securities and cumulative translation adjustments on foreign subsidiaries. Unrealized gains/losses on available-for-sale securities are net of any realized gains or losses on the sale of securities or impairment losses.

Recently adopted accounting pronouncements

During 2012 the Company transitioned its accounting from IFRS to US GAAP. The transition was made retrospectively for all periods from the Company's inception on May 26, 1978. The transition to US GAAP included adoption of any relevant accounting pronouncements effective for fiscal periods ended prior to March 31, 2012.

3. PROPERTY AND EQUIPMENT

During the three months ended March 31, 2012 and February 28, 2011 the company recorded depreciation expense of $7,913 and $8,395, respectively. There were no net additions or net disposals during the three months ended March 31, 2012 and February 28, 2011.

The Company's property and equipment balances are as follows at March 31, 2012 and December 31, 2011:

	Furniture and Equipment	Computer Equipment	Computer Software	Leasehold Improvements	Total
Cost					
Balance at December 31, 2011	$ 53,220	$ 186,327	$ 78,703	$ 18,294	$ 336,544
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at March 31, 2012	$ 53,220	$ 186,327	$ 78,703	$ 18,294	$ 336,544
Depreciation and Impairment losses:					
Balance at December 31, 2011	$ 13,958	$ 100,608	$ 78,703	$ 18,294	$ 211,563
Depreciation for the period	$ 1,963	$ 5,950	-	-	$ 7,913
Disposals	-	-	-	-	-
Balance at March 31, 2012	$ 15,921	$ 106,558	$ 78,703	$ 18,294	$ 219,476
Carrying amounts					
At December 31, 2011	$ 39,262	$ 85,719	$ -	$ -	$ 124,981
At March 31, 2012	$ 37,299	$ 79,769	$ -	$ -	$ 117,068

(Expressed in US dollars - Unaudited)

4. EXPLORATION AND EVALUATION EXPENDITURES

During the three months ended March 31, 2012 the Company capitalized acquisition costs for mineral properties of $2,000,000. There were no capitalized acquisition costs for the three months ended February 28, 2011.

The following table presents costs incurred for exploration and evaluation activities for the three months ended March 31, 2012 and February 28, 2011:

	March 31, 2012	February 28, 2011
Exploration costs:		
Contract services	$ -	$ 2,547,905
Aircraft services	14,000	-
Assay	269,154	651,850
Drilling	644,484	1,661,927
Environmental	621,944	-
Equipment rental	430,499	174,582
Field costs	1,596,106	1,233,869
Geological/geophysical	1,435,580	-
Land maintenance & tenure	18,203	493,779
Legal	15,260	-
Surveying and mapping	60,750	-
Transportation and travel	15,896	96,840
Total expenditures for the period	$ 5,121,876	$ 6,860,752

Livengood Property

The Livengood property is located in the Tintina gold belt approximately 110 kilometres north of Fairbanks, Alaska. The property is approximately 145 square kilometres and consists of fee land leased from the Alaska Mental Health Trust, a number of smaller private mineral leases; Alaska state mining claims purchased or located by the Company and patented ground held by the Company.

Details of the leases are as follows:

1) a lease of the Alaska Mental Health Trust mineral rights having an initial term of three years commencing July 1, 2004, subject to two extensions of three years each and subject to further extension beyond June 30, 2013 by payment of a flat annual fee of 125% of the last rate paid for advance minimum royalties and diligent pursuit of development. The lease requires work expenditures of $10/acre/year in years 1 - 3, $20/acre/year in years 4-6 and $30/acre/year in years 7- 9 and advance minimum royalties of $5/acre/year in years 1 - 3, $15/acre/year in years 4- 6, $25/acre/year in years 7-9, and 125% of the year 9 payment in subsequent years (all of which advance minimum royalties are recoverable from production royalties). An NSR production royalty of between 2.5% and 5.0% (depending upon the price of gold) is payable to the lessor with respect to the lands subject to this lease. In addition, an NSR production royalty of l% is payable to the lessor with respect to the unpatented federal mining claims subject to lease 2) below and an NSR production royalty of between 0.5% and 1.0% (depending upon the price of gold) is payable to the lessor with respect to the lands acquired by the Company as a result of the LPI share purchase transaction described below.

2) a lease of federal unpatented lode mining claims having an initial term of ten years commencing on April 21, 2003 and continuing for so long thereafter as advance minimum royalties are paid and mining related activities, including exploration, continue on the property or on adjacent properties controlled by the Company. The lease requires an advance minimum royalty of $50,000 on or before each anniversary date, (all of which minimum royalties are recoverable from production royalties). An NSR production royalty of between 2% and 3% (depending on the price of gold) is payable to the lessors. The Company may purchase 1% of the royalty for $1,000,000.

4. EXPLORATION AND EVALUATION EXPENDITURES (Cont'd)

3) a lease of patented lode claims having an initial term of ten years commencing January 18, 2007, and continuing for so long thereafter as advance minimum royalties are paid. The lease requires an advance minimum royalty of $20,000 on or before each anniversary date beginning January 18, 2011 through January 18, 2017 and $25,000 on or before each subsequent anniversary (all of which minimum royalties are recoverable from production royalties). An NSR production royalty of 3% is payable to the lessors. The Company may purchase all interests of the lessors in the leased property (including the production royalty) for $1,000,000 (less all minimum and production royalties paid to the date of purchase), of which $500,000 is payable in cash over four years following the closing of the purchase and the balance of $500,000 is payable by way of the 3% NSR production royalty.

4) a lease of unpatented federal lode mining and federal unpatented placer claims having an initial term of ten years commencing on March 28, 2007, and continuing for so long thereafter as advance minimum royalties are paid and mining related activities, including exploration, continue on the property or on adjacent properties controlled by the Company. The lease requires an advance minimum royalty of $15,000 on or before each anniversary date, (all of which minimum royalties are recoverable from production royalties). The Company is required to pay the lessor the sum of $250,000 upon making a positive production decision, payable $125,000 within 120 days of the decision and $125,000 within a year of the decision (all of which are recoverable from production royalties). An NSR production royalty of 2% is payable to the lessor. The Company may purchase all of the interest of the lessor in the leased property (including the production royalty) for $1,000,000.

Livengood acquisitions

In December 2011, the Company completed a transaction to acquire certain mining claims and related rights in the vicinity of the Livengood Gold Project. This acquisition included both mining claims and all of the shares of Livengood Placers, Inc. (an Alaska corporation). These assets were purchased for aggregate consideration of $36,600,000 allocated between cash consideration of $13,500,000 and a derivative liability of $23,100,000. Of the $13,500,000 cash consideration, $5,000,000 was paid at the date of acquisition and $8,500,000 was paid in March 2012 and is included in "accounts payable and accrued liabilities" on the consolidated balance sheets at December 31, 2011. The derivative liability is a contingent payment based on the five-year average daily gold price ("Average Gold Price") from the date of acquisition (see note 5). The derivative liability (payable in December 2016) will equal $23,148 for every dollar that the Average Gold Price exceeds $720 per troy ounce. If the Average Gold Price is less than $720, there will be no additional contingent payment. The subject ground was previously vacant or was used for placer gold mining.

Also in December 2011, the Company exercised its option to acquire all the interests in the 169 State of Alaska claims previously held under a separate lease. The Company paid total cash consideration of $11,044,000 for the acquisition of these State of Alaska mining claims that had an original term of ten years, commencing on September 11, 2006.

Title to mineral properties

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps, in accordance with industry standards, to verify title to mineral properties in which it has an interest. Although the Company has taken every reasonable precaution to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

(Expressed in US dollars - Unaudited)

5. DERIVATIVE LIABILITY

As discussed in note 4 above, the Company acquired certain mining claims and related rights in the vicinity of the Livengood Gold Project located near Fairbanks, Alaska. The aggregate consideration was $13,500,000 in cash plus an additional contingent payment based on the five-year average daily gold price ("Average Gold Price") from the date of the acquisition. The contingent payment will equal $23,148 for every dollar that the Average Gold Price exceeds $720 per troy ounce. If the Average Gold Price is less than $720, there will be no additional contingent payment.

At initial recognition on December 13, 2011 the derivative liability was valued at $23,100,000. The key assumption used in the valuation of the derivative is the estimate of the future Average Gold Price. The estimate of the future Average Gold Price was determined using a forward curve on future gold prices as published by the CME Group. The CME Group represents the merger of the Chicago Mercantile Exchange (CME), the Chicago Board of Trade (CBOT), the New York Mercantile Exchange (NYMEX) and its commodity exchange division, Commodity Exchange, Inc. (COMEX). Using this forward curve, the Company estimated an Average Gold Price five years from the date of acquisition of $1,720 per ounce of gold.

The fair value of the derivative liability and the estimated Average Gold Price are as follows:

	Total	Average Gold Price ($/oz.)
Derivative value at December 13, 2011	$ 23,100,000	$ 1,720
Unrealized (gain) loss for the period	(2,300,000)	
Derivative value at December 31, 2011	20,800,000	$ 1,619
Unrealized (gain) loss for the period	2,400,000	
Derivative value at March 31, 2012	$ 23,200,000	$ 1,722

6. SHARE CAPITAL

Authorized

500,000,000 common shares without par value. At March 31, 2012 and December 31, 2011 there were 86,683,919 shares issued and outstanding.

Share issuances

There were no share issuances during the three months ended March 31, 2012.

Stock options

The Company has adopted an incentive stock option plan (the "2006 Plan"). The essential elements of the 2006 Plan provide that the aggregate number of common shares of the Company's capital stock that may be made issuable pursuant to options granted under the 2006 Plan may not exceed 10% of the number of issued shares of the Company at the time of the granting of the options. Options granted under the 2006 Plan will have a maximum term of ten years. The exercise price of options granted under the 2006 Plan will not be less than the discounted market price of the common shares (defined as the last closing market price of the Company's common shares immediately preceding the issuance of a news release announcing the granting of the options, less the maximum discount permitted under applicable stock exchange policies), or such other price as may be agreed to by the Company and accepted by the Toronto Stock Exchange. Options granted under the 2006 Plan vest immediately, unless otherwise determined by the directors at the date of grant.

(Expressed in US dollars - Unaudited)

6. SHARE CAPITAL (Cont'd)

On January 9, 2012 the Company granted incentive stock options to an employee of the Company to purchase 30,000 common shares in the capital of the Company. The options are exercisable on or before January 9, 2017 at a price of C$4.60 and will vest as to 10,000 shares on January 9, 2012; 10,000 shares on January 9, 2013 and the balance on January 9, 2014.

On January 3, 2012, the Company granted incentive stock options to an officer of the Company to purchase 650,000 common shares in the capital stock of the Company. The options are exercisable on or before January 3, 2017 at a price of C$4.43 per share and will vest as to 216,666 shares on January 3, 2012; 216,666 shares on January 3, 2013 and the balance on January 3, 2014.

A summary of the status of the stock option plan as of March 31, 2012, and December 31, 2011 and changes is presented below:

	Three Months Ended March 31, 2012		**Year Ended December 31, 2011**	
	Number of Options	Weighted Average Exercise Price (C$)	Number of Options	Weighted Average Exercise Price (C$)
Balance, beginning of the period	7,215,000	$ 7.48	4,600,000	$ 7.24
Granted	680,000	$ 4.44	2,700,000	$ 7.87
Exercised	-	$ -	(35,000)	$ (6.57)
Cancelled	(250,000)	$ (7.95)	(50,000)	$ (6.96)
Balance, end of the period	7,645,000	$ 7.20	7,215,000	$ 7.48

The weighted average remaining life of options outstanding at March 31, 2012 was 1.67 years.

Stock options outstanding are as follows:

	March 31, 2012			**December 31, 2011**		
Expiry Date	Exercise Price (C$)	Number of Options	Exercisable	Exercise Price (C$)	Number of Options	Exercisable
January 12, 2012	-	-	-	$ 7.95	250,000	250,000
April 14, 2012	$ 7.34	2,635,000	2,635,000	$ 7.34	2,635,000	2,635,000
August 19, 2012	$ 6.57	1,365,000	1,365,000	$ 6.57	1,365,000	1,365,000
January 10, 2013	$ 9.15	265,000	265,000	$ 9.15	265,000	198,750
July 28, 2013	$ 7.47	950,000	950,000	$ 7.47	950,000	950,000
May 9, 2016	$ 8.35	1,000,000	333,333	$ 8.35	1,000,000	333,333
August 23, 2016	$ 8.07	650,000	216,667	$ 8.07	650,000	216,667
November 15, 2016	$ 5.64	100,000	33,333	$ 5.64	100,000	33,333
January 3, 2017	$ 4.43	650,000	216,667	$ -	-	-
January 9, 2017	$ 4.60	30,000	10,000	$ -	-	-
		7,645,000	6,025,000		7,215,000	5,982,083

Share-based payments

During the three month period ended March 31, 2012, the Company granted 680,000 stock options with a fair value of C$1,799,345, calculated using the Black-Scholes option pricing model. Share-based payment charges for the three months ended March 31, 2012 totaled $1,965,316. There were no share-based payments for the three months ended February 28, 2011.

(Expressed in US dollars - Unaudited)

6. SHARE CAPITAL (Cont'd)

During the seven month period ended December 31, 2011, the Company granted 2,700,000 stock options with a fair value of C$10,894,938, calculated using the Black-Scholes option pricing model. Share-based payment charges for the seven months ended December 31, 2011 totaled $7,645,269 for continuing operations.

The following weighted average assumptions were used for the Black-Scholes option pricing model calculations:

	March 31, 2012	December 31, 2011
Expected life of options	4 years	4 years
Risk-free interest rate	1.31%	1.77%
Annualized volatility	68.18%	71.80%
Dividend rate	0.00%	0.00%
Exercise price (C$)	$4.44	$7.87

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of the Company's shares.

Share-based payment charges during the three months ended March 31, 2012 of $1,965,316 were allocated as follows:

Three months ended March 31, 2012	Share-based payment charges
Consulting fees	$ 36,898
Investor relations	1,478
Professional fees	395
Wages and benefits	1,926,545
	$ 1,965,316

7. RELATED PARTY TRANSACTIONS AND BALANCES

During the three month periods ended March 31, 2012 and February 28, 2011, the Company entered into the following transactions with related parties:

Management compensation

Key management includes those persons having authority and responsibility for planning, directing and controlling the activities of the entity and include the Company's non-employee Directors, the Chief Executive Officer, the Chief Financial Officer, the Chief Administrative Officer and General Counsel, as well as certain other officers. Key management personnel compensation comprised:

	March 31, 2012	February 28, 2011
Fees, wages and benefits	$ 554,566	$ 396,609
Share-based payments	1,859,198	-
	$ 2,413,764	$ 396,609

Transactions with other related parties

During the three months ended March 31, 2012 and February 28, 2011 the Company paid or accrued $9,588 and $16,018, respectively, in rent and administration to a company with common officers and directors. Also the Company paid or accrued $2,996 in rent to an officer during the three months ended March 31, 2012 with no payments for the period ended February 28, 2011.

(Expressed in US dollars - Unaudited)

7. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

At March 31, 2012, included in accounts payable and accrued liabilities was $30,373 (December 31, 2011 - $10,763) in expenses owing to officers and directors of the Company. There were no expenses included in accounts payable and accrued liabilities at March 31, 2012 to companies related by common directors and $53,086 at December 31, 2011.

The Company has entered into a retainer agreement dated August 1, 2008 with Lawrence W. Talbot Law Corporation ("LWTLC"), pursuant to which LWTLC agrees to provide legal services to the Company. Pursuant to the retainer agreement, the Company has agreed to pay LWTLC an annual retainer of C$50,000 (plus applicable taxes and disbursements). The retainer agreement may be terminated by LWTLC on reasonable notice, and by the Company on one year's notice (or payment of one year's retainer in lieu of notice). An officer of the Company is a director and shareholder of LWTLC.

8. SEGMENTED INFORMATION

The Company operates in a single reportable segment, being the exploration and development of mineral properties. The following tables present selected financial information by geographic location:

	Canada	United States	Total
March 31, 2012			
Capitalized acquisition costs	$ -	$ 55,045,871	$ 55,045,871
Property and equipment	21,643	95,425	117,068
Current assets	38,802,317	2,496,754	41,299,071
Total assets	$ 38,823,960	$ 57,638,050	$ 96,462,010
December 31, 2011			
Capitalized acquisition costs	$ -	$ 53,045,871	$ 53,045,871
Property and equipment	22,880	102,101	124,981
Current assets	47,106,247	9,026,986	56,133,233
Total assets	$ 47,129,127	$ 62,174,958	$ 109,304,085

Three months ended	March 31, 2012	February 28, 2011
Net loss for the period – Canada	$ (2,359,419)	$ (545,906)
Net loss for the period - United States	(9,082,546)	(7,775,639)
Net loss for the period	$ (11,441,965)	$ (8,321,545)

(Expressed in US dollars - Unaudited)

9. COMMITMENTS

a) Commitments for mineral properties (note 4).

b) The Company has entered into several office and warehouse lease agreements with options to renew expiring on July 31, 2013. Total rental to that date is $182,582. Future minimum lease payments for the next five fiscal years are as follows:

2013	$	215,476
2014		105,212
2015		6,092
2016		6,092
2017		6,092
2018 and thereafter		6,092
	$	345,056

10. SUPPLEMENTAL CASH FLOW INFORMATION

	March 31, 2012		February 28, 2011	
Interest paid	$	-	$	-
Income taxes paid	$	146,172	$	-