



Annual Report

for the year ended

December 31, 2011



Management Discussion and Analysis

For the year ended

December 31, 2011

(expressed in Canadian dollars)

Crescent Resources Corp.
Year ended December 31, 2011
Management's Discussion and Analysis ("MD&A")

Effective Date

The following discussion is management's assessment and analysis of the results of operations and financial conditions of Crescent Resources Corp. (the "Company" or "Crescent") and should be read in conjunction with the accompanying consolidated financial statements and related notes thereto for the year ended December 31, 2011, which are available on the SEDAR website at www.sedar.com.

On January 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS"). The consolidated financial statements for the year ended December 31, 2011, have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and have used accounting policies consistent with IFRS.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

The effective date of this MD&A is April 4, 2012.

Overview

Description of the Business

Crescent is a publicly-traded mineral exploration company incorporated under the laws of the Province of Ontario and continued under the laws of British Columbia. The Company is a reporting issuer in British Columbia and Alberta and trades on Tier 2 of the TSX Venture Exchange (the "TSX-V") under the trading symbol "CRC".

The highlights of the year ended December 31, 2011 and up to the date of this report include:

On January 6, 2011, concurrent with the TSX-V approval of the Uncle Sam option agreement, the Company closed a non-brokered private placement of 5,000,000 units at a price of \$0.20 per unit for proceeds of \$1,000,000. On that same day, pursuant to the option agreement, Crescent paid Millrock Resources Inc. and Millrock Alaska LLC ("Millrock") US\$75,000 and issued Millrock 1,583,281 common shares valued at \$522,483 and issued an arm's length finder 200,000 common shares valued at \$66,000.

On March 30, 2011, the Company completed a non-brokered private placement financing consisting of 10,000,000 share units at a price of \$0.35 per unit for gross proceeds of \$3,500,000. Each share unit comprised one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a purchase price of \$0.50 per share until March 30, 2013. Cash share issue costs for this private placement amounted to \$129,610 and the Company also issued 314,382 finders' warrants valued at \$97,711.

On January 13, 2011, Don Halliday the Company's Executive Vice President was appointed as the Company's full-time President and Chief Executive Officer and Michael Hopley has been appointed Chairman of the Board of Directors.

Crescent's Uncle Sam gold project has great potential for the discovery of a significant new gold deposit. Past exploration and drilling has shown that the project is a large, mostly untested gold system located in a world class gold belt with three multi-million ounce gold projects, Pogo, Fort Knox and Livengood, located nearby. Alaska is a low risk, pro-development area that is expected to receive a lot of attention this spring and summer, with several large exploration programs being conducted by other mineral exploration companies.

Uncle Sam property, Alaska

Crescent executed a definitive agreement with Millrock Resources Inc. and Millrock Alaska LLC ("Millrock") on December 15, 2010, whereby Crescent can earn a 100% interest in Millrock's rights to the Uncle Sam property, which is located 75 kilometers southeast of the city of Fairbanks. The project is an intrusion

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related gold target hosted in a similar age of intrusive rocks to those which host the Pogo Gold Mine approximately 60 kilometers to the east of Uncle Sam. A comprehensive exploration data package provided to Millrock by previous operators indicates that there are extensive anomalous areas defined by surface gold geochemistry and numerous significant drill intercepts that indicate strong potential for a large new gold discovery.

The Company is funding the exploration program and Millrock is the operator.

2011 Exploration program

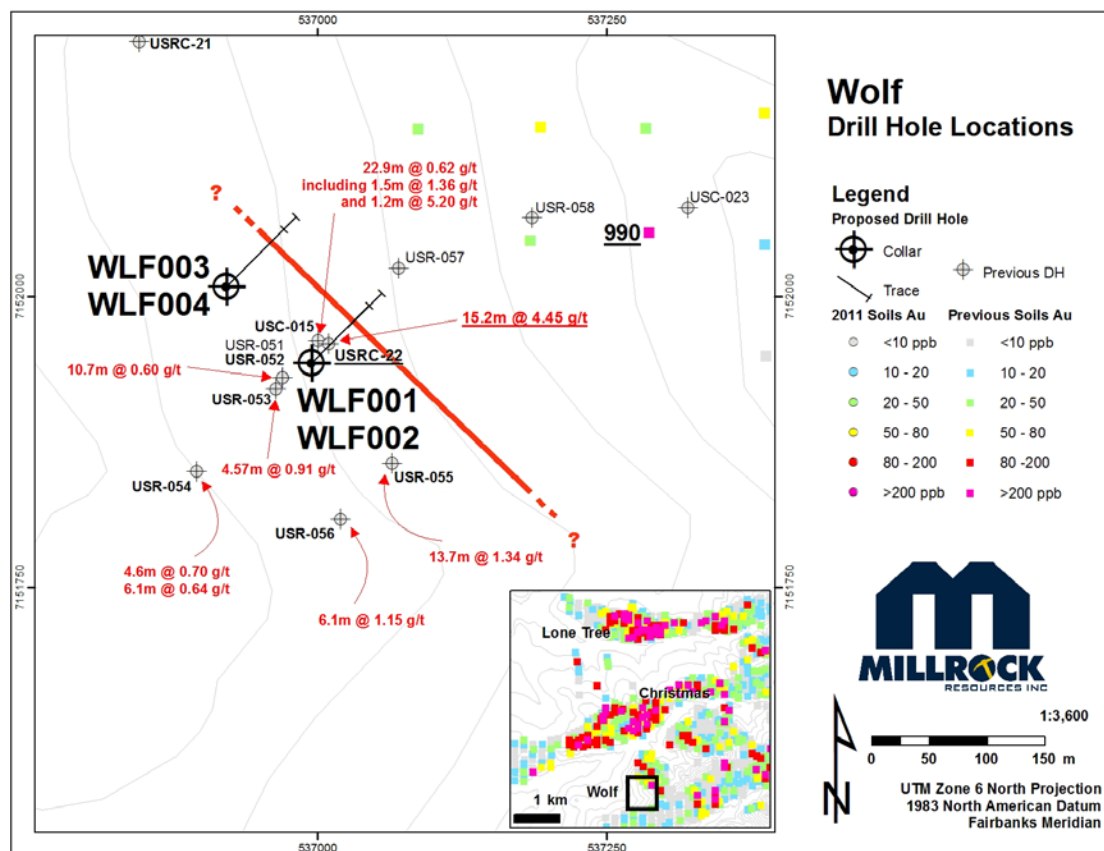
On April 20, 2011, the Company announced the results from the 2011 auger drilling exploration program recently completed at the Uncle Sam Gold Project. The objective of the auger drill program was to obtain a geochemical soil sample at the soil horizon beneath windblown overburden (loess) in areas that had not been sampled by previous operators and to confirm previous sampling in some areas. The program was successful in extending the zones of anomalous soil samples in two areas, the Lone Tree and Christmas Prospects, by 250 meters in width. A third highly prospective zone, the Wolf Prospect, was not sampled during the program.

On July 28, 2011, the Company reported results from the first phase of the drilling program conducted on the Wolf Prospect at the southern end of the claim block with 4 diamond drill holes for a total of 621 meters. Drilling targeted a strong gold in soil anomaly measuring over 2,000 meters in length and 1,000 meters in width. Historic drilling in this area by previous explorers had returned encouraging results such as reverse-circulation drill hole USRC-22, where an intersection averaged 4.45 g/t gold over 15.54 meters and drill hole USR – 055 where an interval averaged 1.34 g/t gold over 13.72 meters. These new Wolf Prospect drill results confirm the presence of strong, near-surface gold mineralization and continuation of the zone along strike. A summary of significant results follow. Please see below for a drill plan map.

Drill Hole	From meters	To meters	Interval – meters	Gold g/t
WLF-001	41.76	44.50	2.74	3.63
WLF-002	35.66	47.06	11.40	4.86
WLF-003	57.00	60.05	3.05	3.27
WLF-004	48.77	50.90	2.13	1.81

Gold mineralization at the Wolf Prospect appears to strike in a northwest – southeast orientation with a gentle southwest dip, and is open to depth and in both strike directions. The mineralization appears to have the same orientation as a new gold zone recently announced by Sumitomo at its adjacent Stone Boy Project. The new zone at Stone Boy called Naosi is located just 500 meters southeast of the Uncle Sam project claim boundary and two kilometers southeast of the Wolf zone. Sumitomo reports that the Naosi zone consists of a vein system continuous over at least a 1,500 meter strike and 500 meters in the down-dip direction. The zone includes an intersection of 7.92 meters averaging 7.8 g/t gold and 19.7 g/t silver.

The proximity of the Wolf and Naosi zones suggests the possibility of a larger gold mineralized system.



Lone Tree Prospect

As part of the 2011 exploration program by Crescent and Millrock, five diamond drill holes totaling 1,329 meters, have been completed at the Lone Tree Prospect which is located further to the northwest from the Wolf Prospect and the Naosi discovery. Drilling targeted a 500 meter by 250 meter portion of a larger gold-in-soil anomaly measuring approximately 4,000 meters by 1,000 meters. Previous historical drilling by other operators in the general area returned encouraging results such as drill holes USC-011, which contained an intersection of 19.22 meters averaging 2.03 g/t gold and USC-013, which contained 6.0 meters averaging 1.79 g/t gold and 14.0 meters averaging 1.65 g/t gold. A summary of significant results follows:

Drill Hole	From - meters	To - meters	Interval - meters	Gold g/t	Azimuth	Dip
LT-001	112.68	119.48	6.80	1.06	180°	-75°
LT-002	295.66	297.67	2.01	1.10	0°	-90°
LT-003	74.58	78.33	3.75	1.12	180°	-60°
LT-004	17.07	19.20	2.13	1.00	0°	-90°
LT-005	59.44	93.27	33.83	0.58	0°	-90°
Including	69.49	72.82	3.32	1.22		
And	146.30	148.44	2.13	1.85		

In the year ended December 31, 2011, the Company expended \$2,302,524 on this program. Support and equipment cost for this helicopter supported drill program (\$1,044,214) comprise almost half of the total exploration expenditures.

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Qualified Person

The Qualified Person responsible for the technical content in this MD&A is Michael Hopley, Chairman of the Board of the Company.

Selected Annual Information

	December 31, 2011 \$	December 31, 2010 \$	December 31, 2009 \$
Total revenues	-	-	-
Loss for the year	3,040,953	1,430,551	423,370
Basic and diluted loss per share	(0.12)	(0.14)	(0.05)
Total assets	2,204,460	258,642	1,032,510
Total long-term financial liabilities	-	-	-
Cash dividends declared per share	-	-	-

Results of Operations

Results of Operations for the year ended December 31, 2011 and 2010

Crescent previously prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants (the "CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and now requires publicly accountable enterprises to apply such standards effective for periods beginning on or after January 1, 2011. Accordingly, the accounting policies adopted in the preparation of our annual consolidated financial statements have been prepared on the basis of IFRS, which is mandatory for financial years beginning on or after January 1, 2011. The comparative balances at December 31, 2010, have been reconciled and the result was that there were differences identified between Canadian GAAP and IFRS for the Company. These differences are fully described in the Note 20 to the December 31, 2011, consolidated financial statements.

The Company incurred a loss for the year ended December 31, 2011, of \$3,040,953 (2010 - \$1,430,551).

The more significant differences between the two fiscal years were consulting fees, exploration costs, legal and audit fees, rent, and share-based compensation:

<u>Consulting fees:</u>	\$207,925 (2010: \$79,402) increase of \$128,523. Consulting fees for the 2010 comparative period are lower as a result of decreased fees paid or payable to the Company's executives. This reflected the reduced magnitude of the workload for the majority of the 2010 fiscal year. With the acquisition of the Uncle Sam project, consulting fees have returned to expected levels. Audit fees in the current year are somewhat higher with the transition to IFRS.
<u>Exploration costs:</u>	\$2,302,524 (2010: \$104,686) increase of \$2,197,838. Work is continuing on the Uncle Sam exploration program throughout 2011 resulting in this variance, as discussed elsewhere in this MD&A.
<u>Rent:</u>	\$nil (2010: \$15,802) decrease of \$15,802. Rent was reduced to zero in the current fiscal year, as the shared office and salary costs normally charged to the Company were waived after April 2010 in consideration of the reduced activity of the Company subsequent to that date.

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Share-based compensation: **\$441,407** (2010: \$130,308) increase of \$311,099.
This increase was due to the fact that 1,250,000 stock options were granted during the 2011 fiscal year with a vested fair value of \$441,407 compared to 171,250 stock options being granted during fiscal 2010 with a vested fair value of \$122,399, net of forfeitures, and \$7,909 vesting from 2009.

Summary of Quarterly Results

	Dec 31 2011 IFRS \$	Sept 30 2011 IFRS \$	June 30 2011 IFRS \$	Mar 31 2011 IFRS \$	Dec 31 2010 IFRS \$	Sept 30 2010 IFRS \$	June 30 2010 IFRS \$	Mar 31 2010 IFRS \$
Total revenues	-	-	-	-	-	-	-	-
Loss for period	(145,136)	(673,388)	(1,490,018)	(732,411)	(133,528)	(18,597)	(1,032,315)	(246,111)
Basic and diluted loss per share	(0.01)	(0.02)	(0.05)	(0.04)	(0.01)	(0.00)	(0.11)	(0.03)

The Company is an exploration stage company. At this time, any issues of seasonality or market fluctuations have no impact on the financial results of the Company. The Company currently defers the acquisition costs of its exploration and evaluation assets. The Company expenses its property exploration and general and administration costs and these amounts are included in the loss for each quarter.

The second quarter of 2010 included the write off of the \$926,791 acquisition costs of the Rattlesnake Hills property.

The increase in the first three quarters of 2011 reflected the costs of exploration programs funded on the Uncle Sam project.

Liquidity

The Company began the 2011 fiscal year with cash of \$216,451. Cash expended on operations in the year, net of non-cash working capital changes was \$2,677,688. Cash invested in exploration and evaluation assets was \$254,102 and cash used for the purchase of property, plant and equipment was \$2,033. Cash received from share offerings was \$4,280,000, with cash used for share issue costs of \$145,209. Cash used for repayment of promissory notes was \$100,000, leaving the Company with \$1,317,419 at December 31, 2011.

On January 6, 2011, the Company issued 5,000,000 common shares and 2,500,000 common share purchase warrants to raise gross proceeds of \$1,000,000 pursuant to a part and parcel financing of which \$220,000 was received as at December 31, 2010. On March 30, 2011, the Company issued 10,000,000 common shares and 4,999,998 common share purchase warrants to raise gross proceeds of \$3,500,000 pursuant to a non-brokered private placement. Finder's fees were paid in the form of \$110,034 in cash and 314,382 non-transferable finder's warrants on the same terms as the March 31, 2011, private placement valued at \$97,711. Other share issue costs totaled \$19,576.

As at the date of this MD&A, the Company has 1,595,000 outstanding stock options, all of which are exercisable. In addition, the Company has 5,314,380 exercisable share purchase warrants. None of stock options or share purchase warrants is "in-the-money" as of the date of this MD&A.

As the Company continues exploration of the Uncle Sam property, it intends to raise funds from additional equity issues to fund those programs. Historically the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. There can be no assurance,

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however, that such financing will be available to the Company or, if it is, that it will be available on terms acceptable to the Company and will be sufficient to fund cash needs until the Company acquires an operating business or achieves positive cash flow. If the Company is unable to obtain the financing necessary to support its operations, it may be unable to continue as a going concern. The Company currently has no commitments for any credit facilities such as revolving credit agreements or lines of credit that could provide additional working capital. The Company has no long term debt, capital lease obligations, operating leases or any other long term obligations.

The Company's working capital at December 31, 2011, is sufficient to fund planned operations for the next twelve months.

Capital Resources

The Company's expenditure commitments on the Uncle Sam property are primarily at the Company's discretion. License fees and minimum work commitments to maintain the option agreement and the underlying Millrock option agreement are currently expected to be approximately US\$200,000 for the fiscal year 2012, although the Company is funding more than this minimum amount. The Company will fund these expenditures with existing working capital. In addition, in 2012 the Company will pay the balance of the US\$260,000 property payments to complete its earn-in of 100% of the Uncle Sam property.

As at the date of this MD&A, other than as described herein and in the Financial Statements, the Company has no other arrangements for sources of financing.

Transactions with Related Parties

- a) The Company's related parties consist of companies with directors and officers in common and companies owned in whole or in part by executive officers and directors as follows:

Name	Nature of transactions
524124 BC Ltd. (Don Halliday)	Consulting as CEO, and holder of promissory notes
Golden Oak Corporate Services Limited (Doris Meyer)	Consulting as CFO, financial reporting and corporate compliance services
Sunridge Gold Corp. (management in common)	Office rent, office expenses, and administrative

The Company incurred the following fees and expenses in the normal course of operations in connection with individuals and companies owned by key management and directors. Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

	Year ended December 31,	
	2011	2010
Consulting fees	\$ 192,190	\$ 70,000
Directors fees	9,000	9,000
Interest expense and accretion on promissory notes	2,011	19,653
Shared office costs and general expenses	6,908	17,502
Total	\$ 210,109	\$ 116,155

The obligation to issue common shares at December 31, 2010, of \$20,000 was owed to a related party pursuant to the terms of the promissory notes.

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b) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel, which include the amounts disclosed above, during the year ended December 31, 2011, and 2010 were as follows:

		Year ended December 31,	
		2011	2010
Consulting fees	\$	192,190	\$ 70,000
Directors fees		9,000	9,000
Stock-based compensation		322,352	92,441
Total	\$	523,542	\$ 171,441

Fourth Quarter

The Company began the fourth quarter with \$1,388,146 cash. During the fourth quarter the Company drew down its remaining cash advanced to Millrock resulting in positive cash flow of \$108,720 from operating activities and spent \$179,447 on exploration and evaluation assets, to end the quarter and the year with \$1,317,419 cash.

Future Canadian Accounting Standards

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2011, and were not applied in preparing the consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

- (i) Effective for annual periods beginning on or after July 1, 2011
 - Amendments to IFRS 7 *Financial Instruments: Disclosures*
 Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.
- (ii) Effective for annual periods beginning on or after July 1, 2012
 - Amendments to IAS 1 *Presentation of Financial Statements*
 To require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.
- (iii) Effective for annual periods beginning on or after January 1, 2013
 - Amendments to IAS 27 and IAS 28 *Separate Financial Statements and Investments in Associates and Joint Ventures*
 Addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
 - New standard IFRS 9 *Financial Instruments*
 Partial replacement of IAS 39 *Financial Instruments: Recognition and Measurement*
 - New standard IFRS 10 *Consolidated Financial Statements*
 Provides a new single consolidation model that identifies control as the basis for consolidation for all types of entities, and replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.

- **New standard IFRS 11 *Joint Arrangements***
Improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. Such a principle-based approach will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*.
- **New standard IFRS 12 *Disclosure of Interests in Other Entities***
Combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.
- **New standard IFRS 13 *Fair Value Measurement***
Defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards could have on future financial statements.

Financial Instruments and Related Risks

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; or other liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2011	December 31, 2010
Cash	FVTPL	\$ 1,317,419	\$ 216,451
Receivables	Loans and Receivables	17,309	14,760
Advances	FVTPL	-	1,144
Trade and other payables	Other liabilities	(43,141)	(138,507)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for cash, receivables, advances, and trade and other payables approximate their fair value due to their short-term nature.

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Risk Management

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

Credit Risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash, receivables, and balances receivable from the government. The Company limits the exposure to credit risk in its cash by only investing its cash with high-credit quality financial institutions in business and savings accounts, guaranteed investment certificates and in government treasury bills which are available on demand by the Company for its programs.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next sixty days.

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. These fluctuations may be significant.

- (a) **Interest Rate Risk:** The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risks on cash and short-term investments and on the Company's obligations are not considered significant.
- (b) **Foreign Currency Risk:** The Company has identified its functional currency as the Canadian dollar. Transactions are transacted in Canadian dollars and in US dollars. The Company maintains US dollar bank accounts in Canada to support the cash needs of its foreign operation. Management believes the foreign exchange risk related to currency conversions are minimal and therefore, does not hedge its foreign exchange risk. At December 31, 2011, one Canadian dollar was equal to 0.983 US dollars.

Balances are as follows:

	US dollars	Canadian dollar equivalent
Cash	22,752	23,139
Receivables	-	-
Advances	-	-
	22,752	23,139
Trade and other payables	(-)	(-)
Net monetary assets	22,752	23,139

Based upon the above net exposures and assuming that all other variables remain constant, a 10% increase or decrease in the Canadian dollar against the US dollar would result in a decrease or increase in the reported loss of approximately \$2,300 in the year.

- (c) **Commodity Price Risk:** While the value of the Company's mineral resource properties are related to the price of gold and the outlook for this mineral, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect to its operational activities.

Historically, the price of gold has fluctuated significantly and is affected by numerous factors outside of the Company's control, including but not limited to industrial and retail demand, central bank lending, forward

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sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to gold.

Forward Looking Statements

This MD&A contains forward-looking statements that are based on the Company's current expectations and estimates. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "suggest", "indicate" and other similar words or statements that certain events or conditions "may" or "will" occur. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause actual events or results to differ materially from estimated or anticipated events or results implied or expressed in such forward-looking statements. Such factors include, among others: the actual results of current exploration activities; conclusions of economic evaluations; changes in project parameters as plans to continue to be refined; possible variations in ore grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing; and fluctuations in metal prices. There may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

This MD&A may contain information about adjacent properties on which we have no right to explore or mine. We advise U.S. investors that the SEC's mining guidelines strictly prohibit information of this type in documents filed with the SEC. U.S. investors are cautioned that mineral deposits on adjacent properties are not indicative of mineral deposits on our properties.

Additional Disclosure for Venture Issuers without Significant Revenue

The components of exploration costs are described in Note 8 to the consolidated financial statements for the year ended December 31, 2011.

Disclosure of Outstanding Share Data

The Company has unlimited authorized common shares and the issued and outstanding share capital at the date of this MD&A is:

	Common Shares Issued and Outstanding	Common Share Purchase Warrants	Common Share Purchase Options
Balance December 31, 2011	27,591,872	7,814,380	1,782,500
Expiration of share purchase warrants	-	(2,500,000)	-
Expiration of stock options	-	-	(187,500)
Issue of shares pursuant to an agreement	1,500,000	-	-
Balance the date of this MD&A	29,091,872	5,314,380	1,595,000

Risks

The Company is subject to risks and challenges similar to other companies in a comparable stage of development. These risks include, but are not limited to, continuing losses, dependence on key individuals, and the ability to secure adequate financing to meet minimum capital required to successfully complete its projects and continue as a going concern. These factors should be reviewed carefully.

The following risk factors, in addition to the risks noted above in the "Financial Instruments and Related Risks" section, should be given special consideration when evaluating trends, risks and uncertainties relating to the Company's business.

Exploration, Development and Production Risks

The exploration for and development of minerals involves significant risks, which even a combination of careful evaluation, experience and knowledge of management and key employees and contractors of the Company may not eliminate. Few properties which are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of minerals disclosed will be economically recoverable. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any minerals discovered will result in the definition of a mineral resource. The Company's operations will be subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, seismic activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company. Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing gold and other mineral properties is affected by many factors, including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. The remoteness and restrictions on access of the Company's mineral property may have an adverse effect on profitability as a result of higher infrastructure costs. There are also physical risks to the exploration personnel working in the terrain in which the Company's mineral property is located, which is subject to poor climate conditions. The long-term commercial success of the Company depends on its ability to explore, develop and commercially produce minerals from its mineral property and to locate and acquire additional properties worthy of exploration and development for minerals. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participation uneconomic.

Substantial Capital Requirements

The management of the Company anticipates that it may make substantial future capital expenditures for the acquisition, exploration, development and production its mineral property. As the Company will be at the exploration stage with no revenue being generated from the exploration activities on its mineral property, the Company may have limited ability to raise the capital necessary to undertake or complete future exploration work, including drilling programs. There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future

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activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects. In particular, failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in its mineral property, miss certain acquisition opportunities and reduce or terminate its operations.

Competition

The mining industry is highly competitive. Many of the Company's competitors for the acquisition, exploration, production and development of mineral properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Company.

Volatility of Mineral Prices

The market price of any mineral is volatile and is affected by numerous factors that are beyond the Company's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events as well as a range of other market forces. Sustained downward movements in mineral market prices could render less economic, or uneconomic, some or all of the mineral extraction and/or exploration activities to be undertaken by the Company.

Mineral Reserves / Mineral Resources

The Company's mineral property is considered to be in the early exploration stage only and does not contain a known body of commercial minerals. Mineral reserves are, in the large part, estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Reserve estimates for properties that have not yet commenced production may require revision based on actual production experience. Market price fluctuations of metals, as well as increased production costs or reduced recovery rates may render mineral reserves containing relatively lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. Moreover, short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies and the processing of new or different mineral grades may cause a mining operation to be unprofitable in any particular accounting period.

Recent Global Financial Conditions

Recent global financial conditions have been subject to increased volatility. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the value and the price of the shares of the Company could be adversely affected.

Environmental Risks

All phases of the mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with mining operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies

Crescent Resources Corp.
Year ended December 31, 2011
Management's Discussion and Analysis

and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at any future producing properties or require abandonment or delays in the development of new mining properties.

Reliance on Key Personnel

The success of the Company will be largely dependent upon the performance of its management and key employees and contractors. In assessing the risk of an investment in the shares of the Company, potential investors should realize that they are relying on the experience, judgment, discretion, integrity and good faith of the proposed management of the Company.

Conflicts of Interest

Certain of the directors and officers of the Company will be engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including mineral resource companies) and, as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest. The *Business Corporations Act* (British Columbia) (the "BCBCA") provides that in the event that a director or senior officer has a material interest in a contract or proposed contract or agreement that is material to the issuer, the director or senior officer must disclose his or her interest in such contract or agreement and a director must refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the BCBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA. To the knowledge of the management of the Company, as at the date hereof, there are no existing or potential material conflicts of interest between the Company and a director or officer of the Company except as otherwise disclosed in this Filing Statement.

Dividends

To date, the Company has not paid any dividends on its outstanding common shares. Any decision to pay dividends on the shares of the Company will be made by the Board on the basis of the Company's earnings, financial requirements and other conditions.

Substantial number of authorized but unissued shares

The Company has an unlimited number of common shares which may be issued by the Board without further action or approval of the Company's shareholders, except in limited circumstances. While the Board is required to fulfill its fiduciary obligations in connection with the issuance of such shares, the shares may be issued in transactions with which not all shareholders agree, and the issuance of such shares will cause dilution to the ownership interests of the Company's shareholders.

Permits and Licenses

The activities of the Company are subject to government approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local native populations. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more

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stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licenses and permits issued in respect of its mineral property may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of the Company's investments in its mineral property may decline.

Title Risks

The acquisition of title to resource properties or interests therein is a very detailed and time-consuming process. The Property may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. The boundaries of its mineral property have not been surveyed and consequently may be disputed.

Limited Operating History

The Company is a company with limited successful operating history. The Company was incorporated in November 1945 and has yet to generate a profit from its activities. The Company will be subject to all of the business risks and uncertainties associated with any business enterprise, including the risk that it will not achieve its growth objective. The Company anticipates that it may take several years to achieve positive cash flow from operations. Even if the Company does undertake exploration activity on the Property, there is no certainty that the Company will produce revenue, operate profitably or provide a return on investment in the future.

Uninsured Risks

The Company, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Company may incur a liability to third parties (in excess of any insurance coverage) arising from negative environmental impacts or any other damage or injury.

Unforeseen Expenses

While the Company is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenditure proposals of the Company may be adversely affected.

Other Information

The Filing Statement for the Uncle Sam transaction and the Technical Report (NI 43-101) for the Uncle Sam property are also posted on www.sedar.com with a filing date of January 4, 2011.

Additional information relating to the Company is available for viewing on SEDAR at www.sedar.com and at the Company's web site www.crescentresourcescorp.com.



Consolidated Financial Statements

December 31, 2011 and 2010

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Crescent Resources Corp.

We have audited the accompanying consolidated financial statements of Crescent Resources Corp. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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 consolidated 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 audits 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 Crescent Resources Corp. and its subsidiary as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

April 4, 2012



CRESCENT RESOURCES CORP.
Consolidated Statements of Financial Position
(stated in Canadian dollars)

		December 31, 2011	December 31, 2010	January 1, 2010
	<i>Note</i>		<i>Note 20(e)</i>	<i>Note 20(d)</i>
ASSETS				
CURRENT ASSETS				
Cash	5	\$ 1,317,419	\$ 216,451	\$ 90,787
Receivables	6	17,309	14,760	11,711
Advances	7	-	1,144	-
		1,334,728	232,355	102,498
NON-CURRENT ASSETS				
Exploration and evaluation assets	8	867,660	25,075	926,791
Property, plant and equipment	9	2,072	1,212	3,221
		869,732	26,287	930,012
		\$ 2,204,460	\$ 258,642	\$ 1,032,510
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Trade and other payables	10	\$ 43,141	\$ 138,507	\$ 246,805
Promissory notes	11	-	98,143	-
		43,141	236,650	246,805
SHAREHOLDERS' EQUITY				
Share capital	12	23,698,000	18,816,838	18,410,308
Share subscriptions	12	-	220,000	-
Obligation to issue common shares	12	-	20,000	110,000
Contributed surplus	12	1,593,531	1,054,413	924,105
Deficit		(23,130,212)	(20,089,259)	(18,658,708)
		2,161,319	21,992	785,705
		\$ 2,204,460	\$ 258,642	\$ 1,032,510
Nature of operations and going concern	1			
Subsequent events	19			

These consolidated financial statements were authorized for issue by the Board of Directors on: April 4, 2012.

They are signed on the Company's behalf by:

"Michael Hopley"

Michael Hopley, Director

"Eric Edwards"

Eric Edwards, Director

The accompanying notes form an integral part of these consolidated financial statements

CRESCENT RESOURCES CORP.
Consolidated Statements of Comprehensive Loss
(stated in Canadian dollars)

		Year ended December 31,	
	Note	2011	2010
			Note 20(e)
General expenses			
Consulting fees		\$ 207,925	\$ 79,402
Depreciation		1,173	2,009
Directors fees		9,000	9,000
Exploration costs	8	2,302,524	104,686
Foreign exchange		(62,672)	(448)
Interest expense	11	2,011	19,653
Legal and audit fees		83,302	92,163
Office and general		8,197	11,128
Regulatory and filing fees		24,277	21,008
Rent		-	15,802
Shareholder relations		23,163	17,022
Share-based compensation	12(e)	441,407	130,308
Travel		12,301	2,142
Loss before other items		(3,052,608)	(503,875)
Other items			
Interest income		11,655	115
Write-off of exploration and evaluation assets	8	-	(926,791)
		11,655	(926,676)
Loss and comprehensive loss for the year		\$ (3,040,953)	\$ (1,430,551)
Basic and diluted loss per common share		\$ (0.12)	\$ (0.14)
Weighted average number of shares outstanding		25,040,366	10,085,032

The accompanying notes form an integral part of these consolidated financial statements

CRESCENT RESOURCES CORP.
Consolidated Statements of Cash Flows
(stated in Canadian dollars)

		Year ended December 31,	
		2011	2010
	Note		Note 20(e)
Cash provided from (used for)			
Operating activities			
Loss for the year		\$ (3,040,953)	\$ (1,430,551)
Adjustment for non-cash items:			
Depreciation		1,173	2,009
Interest expense accretion	11	1,857	18,143
Share-based compensation		441,407	130,308
Write-off of exploration and evaluation assets		-	926,791
Changes in non-cash working capital:			
Receivables		(2,549)	(4,193)
Advances		1,144	-
Trade and other payables		(79,767)	212,293
		<u>(2,677,688)</u>	<u>(145,200)</u>
Investing activities			
Exploration and evaluation assets		(254,102)	(25,075)
Purchase of property, plant and equipment		(2,033)	-
		<u>(256,135)</u>	<u>(25,075)</u>
Financing activities			
Shares issued		4,280,000	-
Share subscriptions	12	-	220,000
Promissory note		(100,000)	100,000
Share issue costs		(145,209)	(24,061)
		<u>4,034,791</u>	<u>295,939</u>
Increase in cash		1,100,968	125,664
Cash, beginning of the year		216,451	90,787
Cash, end of the year		\$ 1,317,419	\$ 216,451

Supplemental disclosure with respect to cash flows – Note 17

The accompanying notes form an integral part of these consolidated financial statements

CRESCENT RESOURCES CORP.
Consolidated Statements of Changes in Equity
(stated in Canadian dollars)

	Note	Number of Shares	Share Capital	Share subscriptions	Obligation to issue common shares	Contributed surplus	Deficit	Total Equity
Balance, January 1, 2010	20(d)	9,624,999	\$ 18,410,308	\$ -	\$ 110,000	\$ 924,105	\$ (18,658,708)	\$ 785,705
Share issues:								
Shares issued for debt		152,777	110,000	-	(110,000)	-	-	-
Shares issued for debt		750,000	300,000	-	-	-	-	300,000
Shares issued for debt		180,950	36,190	-	-	-	-	36,190
Share issue costs		-	(39,660)	-	-	-	-	(39,660)
Share subscriptions		-	-	220,000	-	-	-	220,000
Obligation to issue common shares		-	-	-	20,000	-	-	20,000
Share-based compensation		-	-	-	-	130,308	-	130,308
Shares lost due to rounding from share consolidation		(136)	-	-	-	-	-	-
Loss for the year		-	-	-	-	-	(1,430,551)	(1,430,551)
Balance, December 31, 2010	20(e)	10,708,590	18,816,838	220,000	20,000	1,054,413	(20,089,259)	21,992
Share issues:								
Private placement		5,000,000	1,000,000	(220,000)	-	-	-	780,000
Private placement		10,000,000	3,500,000	-	-	-	-	3,500,000
Shares issued as loan bonus		100,000	20,000	-	(20,000)	-	-	-
Shares issued for exploration and evaluation assets		1,583,281	522,483	-	-	-	-	522,483
Shares issued for a finders' fee agreement		200,000	66,000	-	-	-	-	66,000
Shares issued for rounding		1	-	-	-	-	-	-
Share issue costs		-	(129,610)	-	-	-	-	(129,610)
Warrants issued as finders' fees		-	(97,711)	-	-	97,711	-	-
Share-based compensation		-	-	-	-	441,407	-	441,407
Loss for the year		-	-	-	-	-	(3,040,953)	(3,040,953)
Balance, December 31, 2011		27,591,872	\$ 23,698,000	\$ -	\$ -	\$ 1,593,531	\$ (23,130,212)	\$ 2,161,319

The accompanying notes form an integral part of these consolidated financial statements

1. Nature of Operations and Going Concern

Crescent Resources Corp. (the "Company") is a publicly-traded company incorporated under the laws of the Province of Ontario and continued under the laws of British Columbia. The Company's shares are listed on the TSX Venture Exchange ("TSX-V"). The corporate office of the Company is Suite 1490 – 1075 West Georgia Street, Vancouver, B.C., V6E 3C9. The Company is engaged in the identification, acquisition, exploration and, if warranted, development of exploration and evaluation assets in the United States. The consolidated financial statements of the Company as at and for the year ended December 31, 2011, comprise the Company and its one subsidiary. The Company is considered to be in the exploration stage as it has not placed any of its exploration and evaluation assets into production.

The Company is in the process of exploring its exploration and evaluation asset interests and has not yet determined whether any of its properties contain mineral reserves that are economically recoverable. The recoverability of the amounts spent for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties.

These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. Management believes that the Company's cash on hand at December 31, 2011, is sufficient to finance exploration activities and operations through the next twelve months. The Company's ability to continue on a going concern basis beyond the next twelve months depends on its ability to successfully raise additional financing for the substantial capital expenditures required to achieve planned principal operations. While 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 acceptable to the Company.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

2. Basis of Preparation

a) Statement of compliance and conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board announced that January 1, 2011, is the changeover date for publicly-listed companies to use International Financial Reporting Standards ("IFRS"), replacing Canada's own Generally Accepted Accounting Principles ("GAAP").

These consolidated financial statements have been prepared in accordance with International Accounting Standard 1 *Presentation of Financial Statements* ("IAS 1") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on the IFRS issued and outstanding as at April 4, 2012, the date the Board of Directors approved these financial statements for issue.

2. Basis of Preparation (continued)

a) Statement of Compliance (continued)

These are the Company's first consolidated financial statements prepared in accordance with IFRS and, as a result, IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. Prior to the adoption of IFRS, the Company's financial statements were prepared in accordance with Canadian GAAP. As these financial statements are the Company's first annual financial statements prepared in accordance with IFRS, disclosure of the elected transition exemptions and reconciliation of accounting policy differences compared to Canadian GAAP have been provided in Note 20.

The comparative figures presented in these financial statements are in accordance with IFRS and have been audited.

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Functional currency and presentation currency

The presentation currency of the Company is the Canadian dollar.

Items included in the financial statements of each entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency") and has been determined for each entity within the Company. The functional currency of Crescent Resources Corp., the parent company, is the Canadian dollar and the functional currency of the Company's subsidiary, Crescent Resources USA Inc., is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Estimated useful lives of property, plant and equipment

The estimated useful lives of property, plant and equipment which are included in the consolidated statements of financial position will impact the amount and timing of the related depreciation included in profit and loss.

2. Basis of Preparation (continued)

d) Use of estimates and judgments (continued)

Share-based compensation

The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

Determination of functional currency

In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, management determined that the functional currency of the Company and its subsidiary is the Canadian dollar.

3. Significant Accounting Policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its only subsidiary. Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

Name of subsidiary	Place of incorporation	Proportion of ownership interest	Principal activity
Crescent Resources USA Inc.	State of Wyoming, USA with a Certificate of Authority to operate in the State of Alaska	100%	Exploration activities in the United States

3. Significant Accounting Policies (continued)

Foreign currency translation

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the financial position reporting date. Exchange gains or losses arising on foreign currency translation are reflected in profit and loss for the year. The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar, as this is the principal currency of the economic environment in which they operate.

Property, plant and equipment

Property, plant and equipment ("PPE") is carried at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the items and restoring the site on which it is located.

Depreciation is provided at rates calculated to amortize the costs of PPE less their estimated residual value, using the straight-line method over five years commencing from the year the assets are put into service.

An item of PPE is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit and loss.

Where an item of PPE is composed of major components with different useful lives, the components are accounted for as separate items of PPE. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Exploration and evaluation assets and expenditures

Upon acquiring the legal right to explore a property, all direct costs related to the acquisition of exploration and evaluation assets are capitalized. Exploration and evaluation expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development, are charged to operations as incurred.

Development expenditures incurred subsequent to a development decision, and to increase or 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. When there is little prospect of further work on a property being carried out by the Company, the remaining deferred costs associated with that property are charged to operations during the period such determination is made.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amounts may exceed the recoverable amounts.

Restoration, rehabilitation and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset requirement obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount.

3. Significant Accounting Policies (continued)

Restoration, rehabilitation and environmental obligations (continued)

Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. As the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional asset retirement costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to the profit and loss statements. The Company had no asset retirement obligations as at December 31, 2011, December 31, 2010, or January 1, 2010.

Impairment

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit and loss.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

3. Significant Accounting Policies (continued)

Financial assets

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

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as FVTPL unless they are designed as effective hedges. Assets in this category include cash.

Financial assets at FVTPL are initially recognized, and subsequently carried, at fair value with changes recognized in profit and loss. Attributable transaction costs are recognized in profit and loss when incurred.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months or those that are expected to be settled after 12 months from the end of the reporting period, which are classified as non-current assets. Assets in this category include receivables.

Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is used to determine the amortized cost of loans and receivables and to allocate interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of a trade or other receivable is reduced through the use of an allowance account. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit and loss.

3. Significant Accounting Policies (continued)

Financial assets (continued)

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(iv) **De-recognition of financial assets**

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all of the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit and loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit and loss in the period in which they arise.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The Company has classified trade and other payables and promissory notes as other financial liabilities.

Share capital

Common shares are classified as share capital. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

Loss per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit and loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted loss per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

In the Company's case, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and share purchase warrants on loss per share would be anti-dilutive.

3. Significant Accounting Policies (continued)

Share-based compensation

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Comparative figures

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

New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2011, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

3. Significant Accounting Policies (continued)

New standards, interpretations and amendments not yet effective (continued)

- (i) Effective for annual periods beginning on or after July 1, 2011
 - Amendments to IFRS 7 *Financial Instruments: Disclosures*
Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.
- (ii) Effective for annual periods beginning on or after July 1, 2012
 - Amendments to IAS 1 *Presentation of Financial Statements*
To require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit and loss. The amendments also reaffirm existing requirements that items in OCI and profit and loss should be presented as either a single statement or two consecutive statements.
- (iii) Effective for annual periods beginning on or after January 1, 2013
 - Amendments to IAS 27 and IAS 28 *Separate Financial Statements and Investments in Associates and Joint Ventures*
Addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
 - New standard IFRS 9 *Financial Instruments*
Partial replacement of IAS 39 *Financial Instruments: Recognition and Measurement*
 - New standard IFRS 10 *Consolidated Financial Statements*
Provides a new single consolidation model that identifies control as the basis for consolidation for all types of entities, and replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.
 - New standard IFRS 11 *Joint Arrangements*
Improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. Such a principle-based approach will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*.
 - New standard IFRS 12 *Disclosure of Interests in Other Entities*
Combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.
 - New standard IFRS 13 *Fair Value Measurement*
Defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards could have on future financial statements.

4. Change in Accounting Policy

On January 1, 2010, the Company changed its accounting policy for exploration and evaluation expenditures. In prior years the Company capitalized the acquisition cost of exploration and evaluation assets and exploration expenditures directly related to specific mineral properties, net of recoveries received.

Under the new policy, exploration expenditures incurred prior to the determination of the feasibility of mining operations, and a decision to proceed with development has been made, are charged to operations as incurred. Development expenditures incurred subsequent to a development decision, and to increase or 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.

On transition to IFRS as at January 1, 2010, the impact of this change was to decrease exploration and evaluation assets and increase the deficit by \$368,151.

During the year ended December 31, 2010, the Company wrote off the acquisition and exploration expenditures previously recorded of \$472,837, which included property exploration costs under the new policy of \$368,151 from fiscal 2009, and \$104,686 from fiscal 2010. At December 31, 2010, there was no impact caused by this policy change to either the deficit or exploration and evaluation assets as this property was fully written off in 2010.

5. Cash

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Canadian dollar denominated deposits held in Canada	\$ 1,294,280	\$ 189,365	\$ 87,866
US dollar denominated deposits held in Canada	23,139	27,086	2,921
Total	\$ 1,317,419	\$ 216,451	\$ 90,787

6. Receivables

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Amounts due from the Government of Canada pursuant to HST input tax credits	\$ 6,657	\$ 14,760	\$ 11,711
Accrued interest receivable	10,652	-	-
Total	\$ 17,309	\$ 14,760	\$ 11,711

7. Advances

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Other advances	\$ -	\$ 1,144	\$ -
Total	\$ -	\$ 1,144	\$ -

8. Exploration and Evaluation Assets

Uncle Sam Property, United States

On December 15, 2010, Millrock Resources Inc. and Millrock Alaska LLC ("Millrock") entered into an option agreement (the "Agreement") with the Company, whereby the Company was granted an option to purchase an undivided 100% interest in and to Millrock's right, title and interest in the Uncle Sam property (the "Property") subject to the underlying Millrock Option Agreement ("Millrock Option Agreement"). The Millrock Option Agreement gives Millrock the option to purchase 100% of the right, title and interest in and to the Property, subject to 2% net smelter return royalty ("NSR"), pursuant to an option agreement with and among Geoinformatics Alaska Exploration Inc., an affiliate of Kiska Metals Corporation. The 2% NSR is held by International Royalty Corporation.

On January 6, 2011, the Company issued 200,000 common shares valued at \$66,000 to a finder pursuant to the terms of the underlying agreement whereby the finder introduced the Company to Millrock.

The Agreement was amended on December 22, 2011, to: alter the number of common shares to be issued by the Company to Millrock to exercise the option, and to modify the timing of such common share issuances; and to add an anti-dilution provision in favour of Millrock to the Agreement.

The Company may earn a 100% right to purchase the Property by expending US\$2,500,000 in exploration expenditures by November 1, 2013 (to December 31, 2011, the Company expended US\$2,386,293), by making cash payments to Millrock, by making cash payments to satisfy the underlying Millrock Option Agreement, and by issuing common shares, all according to the following table.

Due Dates	Cash Payments US\$	Exploration Expenditures US\$	Underlying payments pursuant to the Millrock Option Agreement US\$	Issuance of Common Shares
December 15, 2010 (paid)	\$ 25,000	\$ -	\$ -	-
January 6, 2011 (paid and issued)	75,000	-	-	1,583,281
November 1, 2011 (met and paid)	-	300,000	60,000	-
January 6, 2012 (Note A)	200,000	-	-	1,500,000
November 1, 2012	-	1,000,000	60,000	-
January 6, 2013	-	-	-	2,600,000
November 1, 2013	-	1,200,000	-	-
November 1, 2013 (upon completion of requirements under the Agreement)	1	-	-	-
Total consideration	\$ 300,001	\$ 2,500,000	\$ 120,000	5,683,281

Note A: For the 2011 exploration season, the Company had unexpended funds held by Millrock of US\$114,607 which were applied to the cash payment due at January 6, 2012, leaving a residual balance of US\$85,393 that was paid on January 6, 2012.

Rattlesnake Hills Property, United States

On September 16, 2009, the Company entered into an agreement (the "Agreement") to acquire certain mining claims comprising the Rattlesnake Hills North properties located in Wyoming, USA. On May 26, 2010, the Company was delivered notice of performance defaults under the Agreement. On June 19, 2010, the Company and the vendors entered into a debt settlement and mutual release agreement to extinguish the \$300,000 accounts payable owed by the Company to the vendors in exchange for the Company returning the property to the vendors. On July 28, 2010, the Company issued the vendors 750,000 common shares as full settlement of all obligations. The Company wrote-off costs of \$926,791 during the year ended December 31, 2010.

8. Exploration and Evaluation Assets (continued)

The continuity of exploration and evaluation assets is as follows:

	Uncle Sam Property	Rattlesnake Hills property	Total
Acquisition Costs			
At January 1, 2010	\$ -	\$ 926,791	\$ 926,791
Assets acquired for cash	25,075	-	25,075
Write off of acquisition costs	-	(926,791)	(926,791)
At December 31, 2010	25,075	-	25,075
Assets acquired for cash	254,102	-	254,102
Assets acquired by issuance of common shares	588,483	-	588,483
At December 31, 2011	\$ 867,660	\$ -	\$ 867,660

The details of exploration expenditures charged to operations during the year ended December 31, 2011, and 2010 are as follows:

	Year ended December 31,	
	2011	2010
<u>Uncle Sam Property, United States</u>		
Drilling	\$ 507,972	\$ -
Environmental and permitting	1,994	-
External relations	676	-
Geochemistry	166,551	-
Geology	304,256	-
Management fees to Millrock	214,607	-
Property holding costs	62,254	-
Support and equipment	1,044,214	-
	2,302,524	-
<u>Rattlesnake Hills Property, United States</u>		
Geochemistry	-	2,160
Geology	-	97,923
Property holding costs	-	1,389
Support and equipment	-	3,214
	-	104,686
	\$ 2,302,524	\$ 104,686

9. Property, Plant and Equipment

	Furniture and equipment	Field equipment	Total
Cost			
At January 1, 2010	\$ 4,846	\$ 10,400	\$ 15,246
Assets acquired	-	-	-
At December 31, 2010	4,846	10,400	15,246
Assets acquired	2,033	-	2,033
At December 31, 2011	\$ 6,879	\$ 10,400	\$ 17,279
Accumulated depreciation			
At January 1, 2010	\$ 2,665	\$ 9,360	\$ 12,025
Depreciation for the year	969	1,040	2,009
At December 31, 2010	3,634	10,400	14,034
Depreciation for the year	1,173	-	1,173
At December 31, 2011	\$ 4,807	\$ 10,400	\$ 15,207
Carrying amounts			
At January 1, 2010	\$ 2,181	\$ 1,040	\$ 3,221
At December 31, 2010	\$ 1,212	\$ -	\$ 1,212
At December 31, 2011	\$ 2,072	\$ -	\$ 2,072

10. Trade and Other Payables

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Trade and other payables	\$ 5,642	\$ 78,356	\$ 158,805
Amounts payable to related parties	2,499	27,151	65,000
Accrued liabilities	35,000	33,000	23,000
Total	\$ 43,141	\$ 138,507	\$ 246,805

11. Promissory Notes

In 2010, a company controlled by a director and officer of the Company, loaned the Company \$100,000 at an interest rate of 8% per annum on two unsecured promissory notes denominated in Canadian dollars payable on demand. As additional consideration to the lender, at December 31, 2010, the Company recorded an obligation to issue 100,000 common shares valued at \$20,000 (Note 12(b)), which reduced the face value of the promissory notes, and amortized this additional interest expense over the period in which the promissory notes were outstanding. At December 31, 2010, this additional interest expense amounted to \$18,143, added to the accrued simple interest to December 31, 2010, of \$1,510, totalling \$19,653 of interest expense. The value of the promissory notes was \$98,143 as at December 31, 2010.

As at December 31, 2011, the remaining \$1,857 unamortized amount was recorded as an increase in the face value of the promissory notes and was recorded as interest expense in the year ended December 31, 2011, along with the simple interest at 8% of \$154 for a total interest expense in the year of \$2,011.

12. Share Capital and Reserves

a) Authorized share capital

An unlimited number of common shares without par value.

b) Issued share capital

At December 31, 2011, the issued share capital is comprised of 27,591,872 common shares (2010 – 10,708,590).

Issued in the year ended December 31, 2011:

On January 6, 2011, the Company completed a non-brokered private placement financing consisting of 5,000,000 units at a price of \$0.20 per unit for gross proceeds of \$1,000,000. Each unit comprised one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a purchase price of \$0.35 per share until January 6, 2012. The Company had received \$220,000 of these proceeds as at December 31, 2010, and recorded those proceeds as share subscriptions at that time.

On January 6, 2011, the Company issued 100,000 common shares valued at \$20,000 to a company controlled by a Director pursuant to the terms of the underlying promissory notes (Note 11) and the obligation to issue common shares at December 31, 2010.

On January 6, 2011, the Company issued 1,583,281 common shares valued at \$522,483 to Millrock pursuant to the underlying Millrock Option Agreement disclosed in Note 8.

On January 6, 2011, the Company issued 200,000 common shares valued at \$66,000 to a finder pursuant to the terms of the underlying agreement whereby the finder introduced the Company to Millrock.

On March 30, 2011, the Company completed a non-brokered private placement financing consisting of 10,000,000 units at a price of \$0.35 per unit for gross proceeds of \$3,500,000. Each unit comprised one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a purchase price of \$0.50 per share until March 30, 2013. Cash share issue costs for this private placement amounted to \$129,610, along with the fair value of 314,382 warrants issued as finders' fees, with the same terms as the private placement, amounting to \$97,711, for total share issue costs of \$227,321. The fair value of the finders' fee warrants was calculated using the Black-Scholes option pricing model with the following assumptions: two year expected life, 221% annualized volatility, zero expected dividend yield and 1.72% risk free interest rate. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the warrants.

Issued in the year ended December 31, 2010:

On February 16, 2010, the Company issued 152,777 shares valued at \$110,000 pursuant to agreements to settle accounts payable through the issuance of common shares. This obligation to issue common shares was recorded in 2009.

On June 19, 2010, the Company and certain vendors entered into a shares-for-debt settlement and mutual release agreement to extinguish the \$300,000 accounts payable owed by the Company to the vendors in exchange for the Company returning the Rattlesnake Hills property to the vendors and issuing 750,000 common shares valued at \$300,000.

On December 22, 2010, the Company issued 180,950 shares valued at \$36,190 pursuant to an agreement to settle accounts payable through the issuance of common stock.

12. Share Capital and Reserves (continued)

c) Share purchase warrants

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

Expiry date	Exercise price	Balance, December 31, 2010	Issued	Exercised	Expired	Balance, December 31, 2011
January 13, 2011	\$ 1.40	469,750	-	-	(469,750)	-
October 15, 2011	\$ 0.80	900,000	-	-	(900,000)	-
October 22, 2011	\$ 0.80	350,000	-	-	(350,000)	-
January 6, 2012	\$ 0.35	-	2,500,000	-	-	2,500,000
March 30, 2013	\$ 0.50	-	5,314,380	-	-	5,314,380
		1,719,750	7,814,380	-	(1,719,750)	7,814,380
Weighted average exercise price		\$ 0.96	\$ 0.45	\$ -	\$ 0.96	\$ 0.45

The weighted average remaining contractual life of the warrants outstanding as at December 31, 2011, is 0.85 years.

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

Expiry date	Exercise price	Balance, December 31, 2009	Issued	Exercised	Expired	Balance, December 31, 2010
January 13, 2010	\$ 1.40	6,562	-	-	(6,562)	-
January 13, 2011	\$ 1.40	469,750	-	-	-	469,750
October 15, 2011	\$ 0.80	900,000	-	-	-	900,000
October 22, 2011	\$ 0.80	350,000	-	-	-	350,000
		1,726,312	-	-	(6,562)	1,719,750
Weighted average exercise price		\$ 0.97	\$ -	\$ -	\$ 1.40	\$ 0.96

The weighted average remaining contractual life of the warrants outstanding as at December 31, 2010, was 0.59 years.

d) Stock options

The Company has a shareholder approved "rolling" stock option plan (the "Plan") in compliance with the TSX-V's policies. Under the Plan the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares at the time of granting. The exercise price of each stock option shall not be less than the market price of the Company's stock at the date of grant. Options can have a maximum term of ten years and typically terminate 90 days following the termination of the optionee's employment or engagement, except in the case of retirement or death. Vesting of options is at the discretion of the Board of Directors at the time the options are granted.

12. Share Capital and Reserves (continued)

d) Stock options (continued)

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

Expiry date	Exercise price	Balance, December 31, 2010	Granted	Exercised	Expired	Balance, December 31, 2011
May 23, 2011	\$ 2.20	3,750	-	-	(3,750)	-
February 21, 2012	\$ 2.20	187,500	-	-	-	187,500
September 9, 2012	\$ 1.68	50,000	-	-	-	50,000
January 13, 2013	\$ 1.12	25,000	-	-	-	25,000
September 10, 2014	\$ 1.00	98,750	-	-	-	98,750
October 16, 2014	\$ 1.00	25,000	-	-	-	25,000
January 7, 2015	\$ 0.80	146,250	-	-	-	146,250
January 31, 2016	\$ 0.37	-	1,000,000	-	-	1,000,000
May 3, 2016	\$ 0.355	-	250,000	-	-	250,000
		536,250	1,250,000	-	(3,750)	1,782,500
Weighted average exercise price		\$ 1.44	\$ 0.37	\$ -	\$ 2.20	\$ 0.69

At December 31, 2011, all but 62,500 of the outstanding stock options were exercisable, at a weighted average exercise price of \$0.70.

The weighted average remaining contractual life of the stock options outstanding as at December 31, 2011, is 3.39 years.

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

Expiry date	Exercise price	Balance, December 31, 2009	Granted	Exercised	Expired or Cancelled	Balance, December 31, 2010
August 9, 2010	\$ 1.56	201,250	-	-	(201,250)	-
September 28, 2010	\$ 2.20	162,500	-	-	(162,500)	-
May 23, 2011	\$ 2.20	3,750	-	-	-	3,750
February 21, 2012	\$ 2.20	206,250	-	-	(18,750)	187,500
September 9, 2012	\$ 1.68	50,000	-	-	-	50,000
January 13, 2013	\$ 1.12	25,000	-	-	-	25,000
September 10, 2014	\$ 1.00	117,500	-	-	(18,750)	98,750
October 16, 2014	\$ 1.00	25,000	-	-	-	25,000
January 7, 2015	\$ 0.80	-	171,250	-	(25,000)	146,250
		791,250	171,250	-	(426,250)	536,250
Weighted average exercise price		\$ 1.75	\$ 0.80	\$ -	\$ 1.76	\$ 1.44

At December 31, 2010, all of the outstanding stock options were exercisable.

The weighted average remaining contractual life of the stock options outstanding as at December 31, 2010, was 2.61 years.

12. Share Capital and Reserves (continued)

e) Share-based compensation

On January 31, 2011, the Company granted 1,000,000 stock options with a total grant-date fair value of \$358,169 or \$0.36 per option, all of which has been recognized in expense at December 31, 2011. The grant-date fair value of this option grant was calculated using the Black-Scholes option pricing model with the following assumptions: five year expected life, 190% annualized volatility, zero expected dividend yield and 2.24% risk free interest rate. These stock options all vested immediately. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

On May 3, 2011, the Company granted 250,000 stock options with a total grant-date fair value of \$85,884 or \$0.34 per option. Share-based compensation for the vesting portion of the stock options was \$83,238 which was recognized in profit and loss, while the balance will be recognized as the options continue to vest. The grant-date fair value of this option grant was calculated using the Black-Scholes option pricing model with the following assumptions: five year expected life, 189% annualized volatility, zero expected dividend yield and 2.26% risk free interest rate. These stock options vest as to 25% immediately, and 25% in each of the three, six, and nine months following the grant date. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

On January 7, 2010, the Company granted 171,250 stock options with a grant-date fair value of \$127,146 or \$0.74 per option. Share-based compensation for the vesting portion of the stock options was \$122,399, net of forfeitures of \$4,747, which was recognized in profit and loss. The fair value of these option grants was calculated using the Black-Scholes option pricing model with the following assumptions: five year expected life, 156% annualized volatility, zero expected dividend yield and 2.44% risk free interest rate. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

In addition, during the year ended December 31, 2010, the Company recognized \$7,909 in share-based compensation for the fair value of the vesting portion of 75,000 stock options that were granted in 2009.

13. Related Parties

- a) The Company's related parties consist of companies with directors and officers in common and companies owned in whole or in part by executive officers and directors as follows:

Name	Nature of transactions
524124 BC Ltd.	Consulting as CEO, and holder of promissory notes
Golden Oak Corporate Services Limited	Consulting as CFO, corporate compliance, and financial reporting
Sunridge Gold Corp.	Office rent, office expenses, and administration

The Company incurred the following fees and expenses in the normal course of operations in connection with individuals and companies owned by key management and directors. Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

	Year ended December 31,	
	2011	2010
Consulting fees	\$ 192,190	\$ 70,000
Directors fees	9,000	9,000
Interest expense on promissory notes	2,011	19,653
Shared office costs and general expenses	6,908	17,502
Total	\$ 210,109	\$ 116,155

13. Related Parties (continued)

The obligation to issue common shares at December 31, 2010, of \$20,000 was owed to related parties pursuant to the repayment of promissory notes (Note 11).

b) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel, which include the amounts disclosed in Note 13(a), during the year ended December 31, 2011, and 2010 were as follows:

	Year ended December 31,	
	2011	2010
Consulting fees	\$ 192,190	\$ 66,000
Directors fees	9,000	9,000
Share-based compensation	322,352	92,441
Total	\$ 523,542	\$ 167,441

14. Segmented Information

The Company's operations are segmented on a regional basis and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments has been defined as the Chief Executive Officer.

The Company operates in a single segment, being mineral exploration and development.

With the exception of its exploration and evaluation assets which are held in the United States, all of the Company's other significant assets are held in Canada.

15. Management of Financial Risk

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; or other liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2011	December 31, 2010
Cash	FVTPL	\$ 1,317,419	\$ 216,451
Receivables	Loans and Receivables	17,309	14,760
Advances	FVTPL	-	1,144
Trade and other payables	Other liabilities	(43,141)	(138,507)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for cash, receivables, advances, and trade and other payables approximate their fair value due to their short-term nature.

Risk management

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

Credit Risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash, receivables, and balances receivable from the government. The Company limits the exposure to credit risk in its cash by only investing its cash with high-credit quality financial institutions in business and savings accounts, guaranteed investment certificates and in government treasury bills which are available on demand by the Company for its programs.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next sixty days.

15. Management of Financial Risk (continued)

Risk management (continued)

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. These fluctuations may be significant.

- (a) Interest Rate Risk: The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risks on cash and short-term investments and on the Company's obligations are not considered significant.
- (b) Foreign Currency Risk: The Company has identified its functional currency as the Canadian dollar. Transactions are transacted in Canadian dollars and in US dollars. The Company maintains US dollar bank accounts in Canada to support the cash needs of its foreign operation. Management believes the foreign exchange risk related to currency conversions are minimal and therefore, does not hedge its foreign exchange risk. At December 31, 2011, one Canadian dollar was equal to 0.983 US dollars.

Balances are as follows:

	US dollars	Canadian dollar equivalent
Cash	22,752	23,139
Receivables	-	-
Advances	-	-
	22,752	23,139
Trade and other payables	(-)	(-)
Net monetary assets	22,752	23,139

Based upon the above net exposures and assuming that all other variables remain constant, a 10% increase or decrease in the Canadian dollar against the US dollar would result in a decrease or increase in the reported loss of approximately \$2,300 in the year.

- (c) Commodity Price Risk: While the value of the Company's mineral resource properties are related to the price of gold and the outlook for this mineral, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect to its operational activities.

Historically, the price of gold has fluctuated significantly and is affected by numerous factors outside of the Company's control, including but not limited to industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to gold.

16. Management of Capital

The Company manages common shares, stock options, and share purchase warrants as capital (see Note 12). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. Cash consist of cash on hand, balances with banks and investments in highly liquid instruments. The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents and the fair value approximates carrying value.

There have been no changes to the Company's approach to capital management during the year ended December 31, 2011. The Company is not subject to externally imposed capital requirements.

17. Supplemental Disclosure with Respect to Cash Flows

The significant non-cash transactions for the year ended December 31, 2011, consisted of the following:

- The receipt of \$220,000 in share subscriptions in fiscal 2010 as proceeds against the non-brokered private placement financing which closed on January 6, 2011;
- The issue of 200,000 common shares for finders' fees valued at \$66,000;
- The issue of 1,583,281 common shares pursuant to the acquisition of exploration and evaluation assets valued at \$522,483;
- The issue of 100,000 common shares pursuant to agreements for promissory notes, valued at \$20,000; and
- The issue of 314,382 warrants for finders' fees valued at \$97,711.

The significant non-cash transactions for the year ended December 31, 2010, consisted of the following:

- Share issue costs included in trade and other payables of \$15,599;
- Shares issued to settle trade and other payables of \$336,190;
- The obligation to issue 152,777 common shares pursuant to a shares-for-debt agreement valued at \$110,000; and
- The obligation to issue common shares of \$20,000.

18. Income Taxes

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	For the years ended	
	December 31, 2011	December 31, 2010
Loss before income taxes	\$ 3,040,953	\$ 1,785,943
Expected income tax recovery	986,764	508,994
Share-based compensation	(116,973)	(33,501)
Exploration costs not deducted for tax	(783,522)	-
Share issue costs	11,305	4,861
Items not deductible for tax	108,176	(750)
Effect of foreign tax rate	-	77,194
Unrecognized benefit of deferred tax assets	(205,750)	(556,798)
Total	\$ -	\$ -

The nature of the tax effects of the temporary differences and tax loss carry forwards giving rise to the deferred tax assets at December 31, 2011, and 2010 are summarized below:

	December 31, 2011	December 31, 2010
Deferred tax assets		
Share issue costs	\$ 34,000	\$ 12,000
Property, plant and equipment	4,000	3,000
Exploration and evaluation assets	1,760,000	1,179,000
Non-capital loss carry-forwards	1,526,000	1,196,000
Unrecognized deferred tax assets	\$ 3,324,000	\$ 2,390,000

The Company has non-capital losses in Canada of approximately \$4,295,000 and in the USA of approximately \$1,331,000 for income tax purposes which may be carried forward and offset against future taxable income. These losses expire through to 2031. The Company also has certain allowances in respect to resource development and exploration costs in Canada of approximately \$3,907,000, and of \$3,172,000 in the USA which, subject to certain restrictions, are available to be offset against future taxable income. These tax assets have not been recognized in the financial statements as it is not probable that they will be utilized in the near future.

19. Subsequent Events

Subsequent to December 31, 2011:

- a) On January 6, 2012 - 2,500,000 share purchase warrants expired, unexercised;
- b) On January 6, 2012 - issued 1,500,000 common shares pursuant to the Millrock agreement; and
- c) On February 21, 2012 - 187,500 stock options expired, unexercised.

20. First Time Adoption of IFRS

a) Transition to IFRS

The Company adopted IFRS effective January 1, 2011, with a transition date of January 1, 2010. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

The accounting policies in Note 3 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 preparation of an opening IFRS statement of financial position on the Transition Date, January 1, 2010.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in consolidated financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance, and cash flows is set out below.

b) Initial elections upon adoption

IFRS 1, *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date.

The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The IFRS 1 exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS by the Company are explained as follows:

IFRS Exemption Options

i. Share-based payments

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 latter of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP. There were unvested awards as at the Transition date of January 1, 2010. In addition, under IFRS 2, the definition of an employee is broader, allowing the Company to group employees and others providing similar services together. Transition date adjustments were calculated only for stock options issued and outstanding at the Transition date. The Company recalculated the grant date value and expense recognition using the Black-Scholes Model under IFRS 2 and posted an adjustment of \$2,510 to reserves and deficit at the Transition date. The Company also recalculated a second grant of stock options that occurred during 2010 and posted adjustments to reserves and share-based compensation in the 2010 comparative periods.

20. First Time Adoption of IFRS

b) Initial elections upon adoption (continued)

IFRS Exemption Options (continued)

ii. Borrowing costs

Under IAS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, should be capitalized. Other borrowing costs are recognized as an expense. The Company previously elected to expense other borrowing costs under Canadian GAAP, which is consistent with the Company's current accounting policy for such costs under IFRS. The Company did not have any borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, therefore did not have to avail itself of this exemption.

IFRS mandatory exception

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

i. Estimates

Hindsight is not used to create or revise estimates. In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the previous GAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010, are consistent with its Canadian GAAP estimates for the same date.

c) Reconciliation between Canadian GAAP and IFRS

In preparing the Company's opening IFRS statement of financial position, the Company has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and equity is set out in the following tables in Note 20(d) and the notes that accompany the tables in Note 20(f).

IFRS 1 requires reconciliation disclosures that explain how the transition from Canadian GAAP to IFRS has affected the Company's previously reported consolidated financial statements prepared in accordance with previous Canadian GAAP for the year ended December 31, 2010. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Company's financial position, equity, statement of earnings and comprehensive income and material adjustments to cash flows and equity is set out in the following tables in Note 20(d) and (e) and the notes that accompany the tables in Note 20(f).

20. First Time Adoption of IFRS (continued)

d) Reconciliation between Canadian GAAP and IFRS at Transition

Below is the Company's consolidated statement of financial position as at the Transition date of January 1, 2010, under IFRS.

as at January 1, 2010 (date of Transition)	Note	Previous Canadian GAAP	Accounting Policy Change	Effect of Transition to IFRS	IFRS Opening Balance Sheet
ASSETS					
CURRENT ASSETS					
Cash		\$ 90,787	\$ -	\$ -	\$ 90,787
Receivables		11,711	-	-	11,711
		<u>102,498</u>	<u>-</u>	<u>-</u>	<u>102,498</u>
NON-CURRENT ASSETS					
Exploration and evaluation assets	20(f)(i)	1,294,942	(368,151)	-	926,791
Property, plant and equipment		3,221	-	-	3,221
		<u>1,298,163</u>	<u>(368,151)</u>	<u>-</u>	<u>930,012</u>
		<u>\$ 1,400,661</u>	<u>\$ (368,151)</u>	<u>\$ -</u>	<u>\$ 1,032,510</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Trade and other payables		\$ 246,805	\$ -	\$ -	\$ 246,805
		<u>246,805</u>	<u>-</u>	<u>-</u>	<u>246,805</u>
SHAREHOLDERS' EQUITY					
Share capital		18,410,308	-	-	18,410,308
Obligation to issue common shares		110,000	-	-	110,000
Contributed surplus	20(f)(ii)	921,595	-	2,510	924,105
Deficit	20(f)	(18,288,047)	(368,151)	(2,510)	(18,658,708)
		<u>1,153,856</u>	<u>(368,151)</u>	<u>-</u>	<u>785,705</u>
		<u>\$ 1,400,661</u>	<u>\$ (368,151)</u>	<u>\$ -</u>	<u>\$ 1,032,510</u>

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Notes to the Consolidated Financial Statements
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20. First Time Adoption of IFRS (continued)

e) Reconciliation between Canadian GAAP and IFRS as at December 31, 2010

Reconciliation of financial position between Canadian GAAP and IFRS.

as at December 31, 2010	Note	Previous Canadian GAAP	Accounting Policy Change	Effect of Transition to IFRS	IFRS
ASSETS					
CURRENT ASSETS					
Cash		\$ 216,451	\$ -	\$ -	\$ 216,451
Receivables		14,760	-	-	14,760
Prepaid expenses		1,144	-	-	1,144
		<u>232,355</u>	<u>-</u>	<u>-</u>	<u>232,355</u>
NON-CURRENT ASSETS					
Exploration and evaluation assets	20(f)(i)	25,075	-	-	25,075
Equipment		1,212	-	-	1,212
		<u>26,287</u>	<u>-</u>	<u>-</u>	<u>26,287</u>
		<u>\$ 258,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 258,642</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Trade and other payables		\$ 138,507	\$ -	\$ -	\$ 138,507
Promissory note		98,143	-	-	98,143
		<u>236,650</u>	<u>-</u>	<u>-</u>	<u>236,650</u>
SHAREHOLDERS' EQUITY					
Share capital		18,816,838	-	-	18,816,838
Share subscriptions		220,000	-	-	220,000
Obligation to issue common shares		20,000	-	-	20,000
Contributed surplus	20(f)(ii)	1,039,144	-	15,269	1,054,413
Deficit		(20,073,990)	-	(15,269)	(20,089,259)
		<u>21,992</u>	<u>-</u>	<u>-</u>	<u>21,992</u>
		<u>\$ 258,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 258,642</u>

Reconciliation of consolidated statement of comprehensive loss between Canadian GAAP and IFRS.

for the year ended December 31, 2010	Note	Previous Canadian GAAP	Accounting Policy Change	Total IFRS Adjustments	IFRS
EXPENSES					
Consulting fees		\$ 79,402	\$ -	\$ -	\$ 79,402
Depreciation		2,009	-	-	2,009
Director fees		9,000	-	-	9,000
Foreign exchange		(448)	-	-	(448)
Interest expense		19,653	-	-	19,653
Legal and audit fees		92,163	-	-	92,163
Office and general		11,128	-	-	11,128
Property exploration costs	20(f)(i)	-	104,686	-	104,686
Regulatory and filing fees		21,008	-	-	21,008
Rent		15,802	-	-	15,802
Shareholder relations		17,022	-	-	17,022
Share-based compensation	20(f)(ii)	117,549	-	12,759	130,308
Travel		2,142	-	-	2,142
Loss before other items		<u>(386,430)</u>	<u>(104,686)</u>	<u>(12,759)</u>	<u>(503,875)</u>
Other items					
Interest income		115	-	-	115
Write-off of mineral interest	20(f)(i)	<u>(1,399,628)</u>	<u>472,837</u>	<u>-</u>	<u>(926,791)</u>
		<u>(1,399,513)</u>	<u>472,837</u>	<u>-</u>	<u>(926,676)</u>
Loss and comprehensive loss for the year		<u>\$ (1,785,943)</u>	<u>\$ 368,151</u>	<u>\$ (12,759)</u>	<u>\$ (1,430,551)</u>

20. First Time Adoption of IFRS (continued)

e) Reconciliation between Canadian GAAP and IFRS as at December 31, 2010

Reconciliation of consolidated statements of cash flows between Canadian GAAP and IFRS.

for the year ended December 31, 2010	Note	Previous Canadian GAAP	Accounting Policy Change	Total IFRS Adjustments	IFRS
Cash provided from (used for)					
Operating activities					
Loss	20(f)	\$ (1,785,943)	\$ 368,151	\$ (12,759)	\$ (1,430,551)
Adjustments for non-cash items:					
Depreciation		2,009	-	-	2,009
Interest expense		18,143	-	-	18,143
Share-based compensation	20(f)(ii)	117,549	-	12,759	130,308
Write off of mineral interest	20(f)(i)	1,399,628	(472,837)	-	926,791
Changes in non-cash working capital:					
Advances and prepaid expenses		(1,144)	-	-	(1,144)
Receivables		(3,049)	-	-	(3,049)
Trade and other payables	20(f)(i)	131,347	80,946	-	212,293
		(121,460)	(23,740)	-	(145,200)
Investing activities					
Exploration and evaluation assets		(48,815)	23,740	-	(25,075)
Financing activities					
Share subscriptions		220,000	-	-	220,000
Promissory note		100,000	-	-	100,000
Share issue costs		(24,061)	-	-	(24,061)
		295,939	-	-	295,939
Change in cash for the year		125,664	-	-	125,664
Cash, beginning of the year		90,787	-	-	90,787
Cash, end of the year		\$ 216,451	\$ -	\$ -	\$ 216,451

f) Changes in accounting policies

The following paragraphs explain the significant differences between Canadian GAAP and the current IFRS accounting policies applied by the Company. These differences result in the adjustments in the tables above. The descriptive caption next to each numbered item below corresponds to the same numbered and descriptive caption in the tables in 20(d) and (e).

i. Mineral interests, exploration and evaluation assets, and property exploration costs

IFRS 1 requires the Company to apply IFRS 6 *Exploration for and Evaluation of Mineral Resources*, and permits the Company to choose to either continue using their existing accounting policies for exploration and evaluation assets or to change these accounting policies provided that they comply with the requirements of paragraph 10 of IAS 8 – i.e. that the policies result in information that is relevant to the economic decision-making needs of users and that this information is reliable.

The Company has determined by using the criteria in IAS 8, that it has changed its accounting policies for exploration and evaluation assets and expenditures. See Note 4 for further details.

As at the Transition date under previous Canadian GAAP, the Company had \$1,294,942 of exploration and evaluation assets recorded on the statement of financial position. The Company determined that \$368,151 of this amount related to property exploration. The effect of this policy change was to increase the deficit by \$368,151 and decrease exploration and evaluation assets by \$368,151 at the Transition date.

20. First Time Adoption of IFRS (continued)

f) Changes in accounting policies (continued)

i. Mineral interests, exploration and evaluation assets, and property exploration costs

During the year ended December 31, 2010, the Company wrote off the acquisition expenditures previously recorded under GAAP of \$1,399,628, net of property exploration costs expensed under the new policy of \$368,151 from fiscal 2009, and \$104,686 from fiscal 2010 which resulted in an adjusted write-off of \$926,791.

In accordance with IFRS 6, exploration and evaluation assets shall be classified as intangible or tangible according to the nature of the assets acquired and the classification should be applied consistently. Under Canadian GAAP, all exploration and evaluation assets were included in mineral interests. Per the Company's accounting policy, unless an asset has a tangible nature, all capitalized exploration and evaluation costs are classified as intangible assets since they usually comprise costs that are directly attributable to costs incurred in acquiring mineral rights.

ii. Share-based payments

IFRS 1 requires the Company to apply IFRS 2, *Share-Based Payments*, to all equity instruments of share-based payments that have not vested at the transition date. IFRS requires that cash-settled share based payments be accounted for using a fair value method, as opposed to an intrinsic value under Canadian GAAP.

IFRS

- Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches
- Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods; and
- Employees and those providing like services are more broadly defined.

Canadian GAAP

- The fair value of share-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period with revaluations of awards to persons involved in an "investor relations" capacity at each balance sheet date; and
- Forfeitures of awards are recognized as they occur.

IFRS 2 was applied for applicable unvested stock options granted prior to the Transition date at January 1, 2010. Consequently, as a result of the difference in measurement of the equity-settled share-based compensation at January 1, 2010, an adjustment of \$2,510 was recorded to increase the opening deficit with the offset to reserves. IFRS requires different measurement for stock options that have graded vesting features and also allows for a broader definition of "employee" compared with Canadian GAAP.

IFRS 2 was then applied to the stock option grants during 2010 that were subject to revaluation under previous Canadian GAAP. The cumulative effect of all IFRS 2 adjustments to the December 31, 2010, financial results was an increase in share-based compensation expense in 2010 of \$12,759; an increase in the opening deficit at January 1, 2010 of \$2,510; and an increase in reserves of \$15,269.