MAWSON RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2012 AND 2011

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Mawson Resources Limited

We have audited the accompanying consolidated financial statements of Mawson Resources Limited, which comprise the consolidated statements of financial position as at May 31, 2012, May 31, 2011 and June 1, 2010, and the consolidated statements of comprehensive loss, statements of changes in equity and statements of cash flows for the years ended May 31, 2012 and May 31, 2011, 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.

Auditor's 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 audits 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 auditor's 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, the consolidated financial statements present fairly, in all material respects, the financial position of Mawson Resources Limited as at May 31, 2012, May 31, 2011 and June 1, 2010, and its financial performance and its cash flows for the years ended May 31, 2012 and May 31, 2011 in accordance with International Financial Reporting Standards.

"D&H Group LLP"

Vancouver, B.C.
August 28, 2012

Chartered Accountants

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MAWSON RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Note	May 31, 2012 $	May 31, 2011 $ *(Note 17)*	June 1, 2010 $ *(Note 17)*
ASSETS				
Current assets				
Cash	4	7,351,494	12,967,129	9,532,677
Amounts receivable	5	153,039	177,739	128,106
Prepaid expenses and deposits		83,121	65,167	20,907
Total current assets		7,587,654	13,210,035	9,681,690
Non-current assets				
Investments	6	358,000	701,500	663,544
Property, plant and equipment	7	264,900	345,936	140,921
Exploration and evaluation assets	8	4,900,923	7,784,498	5,653,454
Total non-current assets		5,523,823	8,831,934	6,457,919
TOTAL ASSETS		13,111,477	22,041,969	16,139,609
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		779,961	197,546	211,740
TOTAL LIABILITIES		779,961	197,546	211,740
SHAREHOLDERS' EQUITY				
Share capital	10	28,176,662	31,913,205	24,718,992
Share-based payments reserve		5,128,417	4,907,116	3,686,406
Deficit		(20,498,063)	(14,724,598)	(11,579,756)
Accumulated other comprehensive loss		(475,500)	(251,300)	(897,773)
TOTAL SHAREHOLDERS' EQUITY		12,331,516	21,844,423	15,927,869
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		13,111,477	22,041,969	16,139,609

EVENTS AFTER THE REPORTING PERIOD (Note 16)

These consolidated financial statements were approved for issue by the Board of Directors on August 28, 2012 and are signed on its behalf by:

*/s/ **Michael Hudson***
Michael Hudson
Director

*/s/ **Nick DeMare***
Nick DeMare
Director

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

MAWSON RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Note	Year Ended May 31 2012 $	 2011 $ *(Note 17)*
Expenses			
Accounting and administration		110,592	36,800
Audit		84,772	35,724
Corporate development		184,339	139,974
Depreciation		61,519	52,272
General exploration		406,437	290,248
Investor relations		52,500	42,000
Legal		605,166	2,650
Management fees		162,000	160,000
Office and sundry		263,750	134,877
Professional fees		412,748	219,468
Regulatory fees		88,747	22,022
Rent		54,030	39,438
Salaries and benefits		340,829	255,964
Shareholder costs		25,411	16,008
Share-based compensation	10(d)	456,450	1,591,000
Transfer agent		55,835	10,710
Travel		316,710	191,161
		3,681,835	3,240,316
Loss before other items		(3,681,835)	(3,240,316)
Other items			
Interest and other income		130,567	114,511
Write-off of exploration and evaluation assets	8(c)	(21,810)	-
Write-down of investment	8(a)	(2,015,500)	-
Foreign exchange		(65,587)	(3,069)
Loss on sale of available-for-sale investments	6	-	(219,318)
Unrealized (loss) gain on held-for-trading investments		(86,000)	53,000
Recovery of expenses	11(d)	-	40,624
Gain on sale of property, plant and equipment		-	5,926
		(2,058,330)	(8,326)
Loss before deferred income taxes		(5,740,165)	(3,248,642)
Deferred income taxes		(33,300)	103,800
Net loss for the year		(5,773,465)	(3,144,842)
Other comprehensive (loss) income, net of deferred income taxes		(224,200)	646,473
Comprehensive loss for the year		(5,997,665)	(2,498,369)
Basic and diluted loss per common share		$(0.11)	$(0.07)
Weighted average number of common shares outstanding		51,806,037	47,438,905

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

MAWSON RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Year Ended May 31, 2012					
	Share Capital					
	Number of Shares	Amount $	Share-Based Payments Reserve $	Deficit $	Accumulated Other Comprehensive Loss $	Total Equity $
Balance on June 1, 2011	51,645,753	31,913,205	4,907,116	(14,724,598)	(251,300)	21,844,423
Common shares issued for:						
Cash - exercise of share options	553,500	319,020	-	-	-	319,020
Cash - exercise of warrants	25,000	30,000	-	-	-	30,000
Share-based compensation	-	-	456,450	-	-	456,450
Transfer to common shares on exercise of share options	-	235,149	(235,149)	-	-	-
Unrealized loss on available-for-sale investments	-	-	-	-	(257,500)	(257,500)
Deferred income tax on unrealized loss on available-for-sale investments	-	-	-	-	33,300	33,300
Return of capital on spin-out (Note 9)	-	(4,320,712)	-	-	-	(4,320,712)
Net loss for the year	-	-	-	(5,773,465)	-	(5,773,465)
Balance at May 31, 2012	52,224,253	28,176,662	5,128,417	(20,498,063)	(475,500)	12,331,516

	Year Ended May 31, 2011					
	Share Capital					
	Number of Shares	Amount $	Share-Based Payments Reserve $	Deficit $	Accumulated Other Comprehensive Loss $	Total Equity $
Balance on June 1, 2010	42,697,253	24,718,992	3,686,406	(11,579,756)	(897,773)	15,927,869
Common shares issued for:						
Cash - private placement	7,000,000	5,530,000	-	-	-	5,530,000
Cash - exercise of share options	1,018,500	538,370	-	-	-	538,370
Cash - exercise of warrants	930,000	778,500	-	-	-	778,500
Share issue costs		(22,947)	-	-	-	(22,947)
Share-based compensation	-	-	1,591,000	-	-	1,591,000
Transfer to common shares on exercise of share options	-	370,290	(370,290)	-	-	-
Unrealized gain on available-for-sale investments	-	-	-	-	750,273	750,273
Deferred income tax on unrealized gain on available-for-sale investments	-	-	-	-	(103,800)	(103,800)
Net loss for the year	-	-	-	(3,144,842)	-	(3,144,842)
Balance at May 31, 2011	51,645,753	31,913,205	4,907,116	(14,724,598)	(251,300)	21,844,423

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

MAWSON RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Year Ended May 31	
	2012 $	2011 $
Operating activities		
Net loss for the year	(5,773,465)	(3,144,842)
Adjustments for:		
Depreciation	61,519	52,272
Share-based compensation	456,450	1,591,000
Unrealized loss on held-for-trading investments	86,000	(53,000)
Write-down of investment	2,015,500	-
Deferred income tax	33,300	(103,800)
Loss on sale of available-for-sale investments	-	219,318
Write-off of exploration and evaluation assets	21,810	-
Gain on sale of property, plant and equipment	-	(5,926)
	(3,098,886)	(1,444,978)
Changes in non-cash working capital items:		
Increase in amounts receivable	(13,449)	(49,633)
Increase in prepaid expenses and deposits	(23,958)	(44,260)
Increase (decrease) in accounts payable and accrued liabilities	388,467	(39,694)
	351,060	(133,587)
Net cash used in operating activities	(2,747,826)	(1,578,565)
Investing activities		
Expenditures on exploration and evaluation assets	(2,685,992)	(2,105,544)
Additions to property, plant and equipment	(5,837)	(276,341)
Proceeds on sale of property, plant and equipment	-	24,980
Proceeds on sale of investment	-	545,999
Disposal of cash from Plan of Arrangement	(525,000)	-
Net cash provided by (used in) investing activities	(3,216,829)	(1,810,906)
Financing activities		
Issuance of share capital	349,020	6,846,870
Share issuance cost	-	(22,947)
Net cash provided by financing activities	349,020	6,823,923
Net change in cash	(5,615,635)	3,434,452
Cash at beginning of year	12,967,129	9,532,677
Cash at end of year	7,351,494	12,967,129

Supplemental cash flow information - See Note 14

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

1. NATURE OF OPERATIONS

Mawson Resources Limited (the "Company") was incorporated on March 10, 2004 under the provisions of the Company Act (British Columbia). The Company is listed and traded on the Toronto Stock Exchange ("TSX") under the symbol "MAW". The Company's head office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7 Canada.

The Company is a resource company engaged in the acquisition and exploration of unproven mineral interests. As at May 31, 2012 the Company has not earned any production revenue, nor found proved reserves on any of its unproven mineral interests. On the basis of information to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the exploration and evaluation assets is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. Exploration and evaluation assets represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values.

On November 30, 2011 the Company announced it was proposing to conduct a spin-out of its Peruvian assets (the "Spin-Out") that would reorganize the business and capital structure of the Company into two separate public companies to allow the Company to focus on the development of its flagship Rompas property in Finland. Pursuant to the proposed Spin-Out, the Company transferred all of the outstanding shares of its wholly-owned subsidiary, Mawson Peru S.A.C., ("Mawson Peru") and its option to earn a 100% interest in Altynor Peru S.A.C. ("Altynor Peru") to a newly incorporated subsidiary, Darwin Resources Corp. ("Darwin"). The Company also completed the sale of its non-core mineral properties in Sweden and Finland for common shares of European Uranium Resources Ltd. ("European Uranium"). In April 2012 the Company received shareholder and final court approvals to the Plan of Arrangement for the transactions described in Note 9. The Plan of Arrangement became effective on April 30, 2012 and the common shares of Darwin and European Uranium held by the Company were distributed to the shareholders of the Company as a return of capital. See also Note 9.

The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to develop properties and to establish future profitable production. The Company's operations are funded from equity financings which are dependent upon many external factors and may be difficult to impossible to secure or raise when required. Although management considers that the Company has adequate resources to maintain its core operations and planned exploration programs on its existing exploration and evaluation assets for the next twelve months the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

Adoption of International Financial Reporting Standards ("IFRS") and Statement of Compliance

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The Company has applied *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1") on the transition from previous Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS and the impact of the transition is explained in Note 17, including the effects of the transition to IFRS on the Company's financial position, equity, comprehensive loss and cash flows.

Subject to the application of the transition elections described in Note 17, the accounting policies applied in these consolidated financial statements and described below, have been applied consistently to all periods presented, including the opening statement of financial position as at June 1, 2010 (the Company's "Transition Date"), except where the Company applied certain exemptions upon transition to IFRS.

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION AND ADOPTION OF IFRS (continued)

Basis of Preparation

The Company's consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value. The comparative figures presented in these consolidated financial statements are in accordance with IFRS and any changes from figures previously reported under Canadian GAAP have been disclosed in Note 17.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Details of the Group

In addition to the Company, the condensed consolidated interim financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

The subsidiaries of the Company are as follows:

		Ownership Interest	
Company	**Location of Incorporation**	**May 31, 2012**	**May 31,2011**
Mawson Energi AB	Sweden	100%	100%
Mawson Oy	Finland	100%	-
Kay Metals Ltd.	Barbados	100%	100%
Mawson Peru S.A.C.	Peru	-	100%

Mawson Oy was incorporated in Finland on November 7, 2011. T&M Resources AB ("T&M") was incorporated in Sweden on November 15, 2011. Darwin Resources Corp. ("Darwin") was incorporated in Canada on September 30, 2011.

During fiscal 2012 the Company disposed of its 100% interest in Mawson Peru S.A.C. and T&M, as described in Note 8 and distributed its common shares of Darwin, as described in Note 9.

Critical Judgements and Sources of Estimation Uncertainty

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical Judgements

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

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

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

(iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Management has determined that there were no triggering events present as defined in IFRS 6 for the exploration and evaluation assets and as such, no impairment test was performed.

(iv) Although, the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

(ii) Management estimates the fair values of share-based payment arrangements using the Black-Scholes option pricing model.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. As at May 31, 2012 and 2011 the Company did not have any cash equivalents.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts Receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivable. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and subsequently measured at amortized cost using the effective interest method.

Comparative Amounts

Certain comparative figures in the consolidated financial statements of comprehensive loss have been reclassified to conform to the presentation used in the current year.

Exploration and Evaluation Assets

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to the results of operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment 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 item and restoring the site on which it is located.

Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful life of the assets, at a rate of 4% for the condominium and 20% for office furniture and equipment, field equipment and vehicle.

An item of property, plant and equipment is derecognized 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 or loss in the consolidated statement of comprehensive income or loss.

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

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

Impairment of Assets

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning Provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at May 31, 2012 and 2011 the Company does not have any decommissioning obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available-for-sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash and investments in warrants are classified as fair value through profit or loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. Investments in common shares are classified as available-for-sale.

Transaction costs associated with financial assets at fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Account payables and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). At May 31, 2012 and 2011 the Company has not classified any financial liabilities as fair value through profit or loss.

Share Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Equity Financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in the private placements is determined by the closing quoted bid price on the price reservation date, if applicable, or the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

Share-Based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Current and Deferred Income Taxes

The tax expense comprises current and deferred tax. Tax is recognized separately in the statement of comprehensive loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax relating to items recognized directly in equity or other comprehensive income ("OCI") is recognized in equity or OCI and not in the statement of comprehensive loss.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss Per Share

Basic loss per share is computed by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share.

Foreign Currency Translation

Functional and Presentation Currency

The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. Each subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive loss.

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive loss.

Accounting Standards and Interpretations Issued but Not Yet Adopted

The following accounting standards, amendments and interpretations have been issued but are not effective until annual periods beginning after January 1, 2011, unless otherwise indicated, earlier application is permitted. As at the date of these consolidated financial statements, the following standards, amendments and interpretations have not been applied in these consolidated financial statements.

(i) IFRS 7 *Financial Instruments: Disclosures, Amendments Regarding Disclosures - Transfers of Financial Assets*; effective for annual periods beginning on or after July 1, 2011.

(ii) IFRS 9 *Financial Instruments* (New; to replace IAS 39); effective for annual periods beginning on or after January 1, 2015.

(iii) IFRS 10 *Consolidated Financial Statements*; effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidated - Special Purpose Entities*.

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) IFRS 11 *Joint Arrangements*; effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS supersedes the current IAS 31 *Interest in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Ventures*.

(v) IFRS 12 *Disclosure of Interest in Other Entities*; effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

(vi) IFRS 13 *Fair Value Measurements*; to be applied for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

(vii) IAS 12 *Income Taxes, Amendments Regarding Deferred Tax: Recovery of Underlying Assets*; effective for annual periods beginning on or after January 1, 2012.

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

4. CASH

	May 31, 2012 $	May 31, 2011 $	June 1, 2010 $
Cash on hand	1,591,169	1,047,217	7,532,677
Demand deposits	5,760,325	11,919,912	2,000,000
	7,351,494	12,967,129	9,532,677

5. AMOUNTS RECEIVABLE

	May 31, 2012 $	May 31, 2011 $	June 1, 2010 $
HST receivable	63,717	9,233	8,704
Foreign value added taxes receivables	68,251	19,409	27,864
Other	21,071	149,097	91,538
	153,039	177,739	128,106

(Expressed in Canadian Dollars)

6. INVESTMENTS

	As at May 31, 2012				
	Number	Cost $	Accumulated Compre-hensive Loss $	Accumulated Gain $	Carrying Value $
Available-for-sale investments:					
Common shares					
Hansa Resources Limited ("Hansa")	3,500,000	715,000	(382,500)	-	332,500
Tumi Resources Limited ("Tumi")	300,000	45,000	(22,500)	-	22,500
Held-for-trading investments:					
Warrants					
Tumi	300,000	-	-	3,000	3,000
		760,000	(405,000)	3,000	358,000

	As at May 31, 2011				
	Number	Cost $	Accumulated Compre-hensive Gain (Loss) $	Accumulated Gain $	Carrying Value $
Available-for-sale investments:					
Common shares					
Hansa	3,500,000	715,000	(155,000)	-	560,000
Tumi	300,000	45,000	7,500	-	52,500
Held-for-trading investments:					
Warrants					
Hansa	1,000,000	-	-	80,000	80,000
Tumi	300,000	-	-	9,000	9,000
		760,000	(147,500)	89,000	701,500

	As at June 1, 2010				
	Number	Cost $	Accumulated Compre-hensive Gain (Loss) $	Accumulated Gain $	Carrying Value $
Available-for-sale investments:					
Common shares					
Hodges Resources Ltd. ("Hodges")	1,000,000	50,317	90,727		141,044
Hansa	7,000,000	1,430,000	(975,000)	-	455,000
Tumi	300,000	45,000	(13,500)	-	31,500
Held-for-trading investments:					
Warrants					
Hansa	1,000,000	-	-	30,000	30,000
Tumi	300,000	-	-	6,000	6,000
		1,525,317	(897,773)	36,000	663,544

(a) As at May 31, 2012 the quoted market value of the 3,500,000 common shares of Hansa was $332,500.

The Hansa warrants were exercisable at a price of $0.10 per share and expired on April 1, 2012 without exercise.

During fiscal 2011 the Company sold 3,500,000 common shares of Hansa for $350,000 and recorded a realized loss of $365,000.

6. INVESTMENTS (continued)

(b) In March 2009 the Company purchased 300,000 units of Tumi at a cost of $45,000. Each unit comprised one common share and one share purchase warrant, with each warrant originally entitling the Company to purchase an additional common share at an exercise price of $0.25 per share expiring on March 25, 2012. During fiscal 2012 the expiry date of the Tumi warrants was extended to March 25, 2013. The Company may be forced to exercise the warrants if the common shares trade at a weighted average price of $0.40 per common share for a period of 20 consecutive trading days. At the time of purchase the Company assigned a $45,000 fair value to the common shares and $nil fair value to the warrants.

As at May 31, 2012 the quoted market value of the 300,000 common shares of Tumi was $22,500 and the fair value of the Tumi warrants was determined to be $3,000, estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; expected volatility - 136%; a risk-free interest rate of 1.01%; and an expected life of ten months.

(c) During fiscal 2009 the Company received 1,000,000 common shares of Hodges, at a fair value of $50,317, from the disposition of certain of its unproven mineral interests. During fiscal 2011 the Company sold its investment in Hodges for $195,999 and recorded a realized gain of $145,682.

(Expressed in Canadian Dollars)

7. PROPERTY, PLANT AND EQUIPMENT

Cost:	**Condominium** $	**Office Furniture and Equipment** $	**Field Equipment** $	**Vehicles** $	**Total** $
Balance at June 1, 2010	-	81,091	33,689	211,028	325,808
Additions	248,450	31,511	-	-	279,961
Disposals	-	(5,657)	-	(52,524)	(58,181)
Balance at May 31, 2011	248,450	106,945	33,689	158,504	547,588
Additions	-	11,158	-	-	11,158
Disposals	-	(86,569)	(13,740)	-	(100,309)
Balance at May 31, 2012	248,450	31,534	19,949	158,504	458,437

Accumulated Depreciation:	**Condominium** $	**Office Furniture and Equipment** $	**Field Equipment** $	**Vehicles** $	**Total** $
Balance at June 1, 2010	-	(40,953)	(15,479)	(128,455)	(184,887)
Depreciation	(5,176)	(21,184)	(3,415)	(22,497)	(52,272)
Disposals	-	4,711	-	30,796	35,507
Balance at May 31, 2011	(5,176)	(57,426)	(18,894)	(120,156)	(201,652)
Depreciation	(12,424)	(21,970)	(5,033)	(22,092)	(61,519)
Disposals	-	62,659	6,975	-	69,634
Balance at May 31, 2012	(17,600)	(16,737)	(16,952)	(142,248)	(193,537)

Carrying Value:	**Condominium** $	**Office Furniture and Equipment** $	**Field Equipment** $	**Vehicles** $	**Total** $
Balance at June 1, 2010	-	21,973	6,776	112,172	140,921
Balance at May 31, 2011	243,274	31,354	3,361	67,947	345,936
Balance at May 31, 2012	230,850	14,797	2,997	16,256	264,900

During fiscal 2011 the Company purchased a 100% interest in Kay Metals Ltd. ("Kay Metals") from Tumi , a public company with directors and officers in common, for $248,450 (US $250,000). The only asset of Kay Metals is the condominium in Peru.

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS

	Sweden		Finland	Peru	
	Uranium Projects $	Other Projects $	Gold Projects $	Gold/Copper Projects $	Total $
Balance at June 1, 2010	4,107,055	7,191	1,528,432	10,776	5,653,454
Exploration costs					
Assays	-	-	-	17,854	17,854
Consulting	-	-	400,434	116,245	516,679
Database	-	-	2,446	-	2,446
Exploration site	14,984	-	83,144	98,666	196,794
Field equipment	-	-	30,903	19,045	49,948
Field workers	-	-	-	17,342	17,342
Fuel	2,013	-	12,619	4,499	19,131
Geochemical	3,479	-	208,229	-	211,708
Geological	2,253	-	264,457	46,729	313,439
Maps	-	-	4,234	-	4,234
Salaries and benefits	18,890	-	238,254	101,563	358,707
Travel	8,223	-	57,654	16,994	82,871
VAT	-	-	-	49,586	49,586
Vehicle rental	2,332	-	23,428	22,044	47,804
	52,174	-	1,325,802	510,567	1,888,543
Acquisition costs					
Mining rights	-	-	-	112,086	112,086
Permits	50,054	-	28,260	-	78,314
Option payment	-	-	-	52,101	52,101
	50,054	-	28,260	164,187	242,501
Balance at May 31, 2011	4,209,283	7,191	2,882,494	685,530	7,784,498
Exploration costs					
Assays	-	-	113,474	7,858	121,332
Consulting	-	-	563,320	85,955	649,275
Database	-	-	197	-	197
Drilling	-	-	610,465	-	610,465
Environmental	-	-	-	14,220	14,220
Exploration site	1,134	-	117,969	85,639	204,742
Field equipment	-	-	43,279	-	43,279
Field workers	-	-	-	5,757	5,757
Fuel	-	-	11,350	8,018	19,368
Geochemical	-	-	146,205	-	146,205
Geological	-	-	287,848	19,487	307,335
Maps	-	-	3,627	306	3,933
Salaries and benefits	-	-	333,267	275,309	608,576
Travel	-	-	9,515	24,582	34,097
VAT	-	-	-	43,004	43,004
Vehicle rental	-	-	43,775	15,780	59,555
	1,134	-	2,284,291	585,915	2,871,340
Acquisition costs					
Mining rights	-	-	-	131,168	131,168
Permits	14,500	-	60,413	-	74,913
	14,500	-	60,413	131,168	206,081
Disposal (Note 8(a))	(4,204,372)	(4,607)	(327,594)	-	(4,536,573)
Spin-out (Note 8(b))	-	-	-	(1,402,613)	(1,402,613)
Write-offs (Note 8(c))	(9,064)	(2,584)	(10,162)	-	(21,810)
Balance at May 31, 2012	11,481	-	4,889,442	-	4,900,923

8. EXPLORATION AND EVALUATION ASSETS (continued)

(a) On February 29, 2012 the Company completed the sale of its wholly-owned Swedish subsidiary, T&M, which was incorporated to hold the non-core mineral interests of the Company, comprising the Hotagen, Duobblon, Kapell and Aronsjö projects in Sweden and the Riutta, Asento and Nuottijärvi projects in Finland (collectively the "Uranium Assets"). Under the sale agreement, European Uranium (formerly Tournigan Energy Ltd.) purchased T&M for consideration of 10,727,969 common shares of European Uranium, at a fair value of $4,536,573. The Company subsequently recorded a $2,015,500 write-down of its investment in the common shares of European Uranium to reflect the fair value of $2,521,073 prior to the distribution under the Plan of Arrangement. See also Note 9.

(b) Mawson Peru also held option agreements with the shareholders of Altynor Peru whereby the Company could acquire a 100% ownership interest in Altynor Peru by making payments totalling US $600,000, of which US $50,000 has been paid and US $550,000 is payable on receipts of permits to drill. Altynor Peru holds an option to purchase a 100% undivided interest in nine exploration permits (the "Alto Quemado Property") from Alto Quemado Mining Company S.A.C. On February 27, 2012 the Company transferred all of the outstanding shares of Mawson Peru and its option to earn a 100% interest in Altynor Peru to Darwin, which formed part of the distribution under the Plan of Arrangement. See also Note 9.

(c) As at May 31, 2012 the Company maintained the following:

(i) ***Finland***

On April 30, 2010 the Company entered into a purchase and sale agreement with Areva Resources Finland OY ("Areva Finland"), whereby the Company paid $1,403,956 to purchase 170 claims or claim applications in Finland. The Company also holds or has made claim applications in various areas of Finland.

During fiscal 2012 the Company surrendered certain claims in Finland and wrote-off $10,162 in acquisition costs and exploration expenditures.

As at May 31, 2012 the Company holds a total of 834 claims or claim applications in Finland.

(ii) ***Sweden***

Uranium Properties

During fiscal 2009 the Company and Hodges entered into an option and joint venture agreement whereby Hodges issued 1,000,000 common shares of its share capital to the Company, at a fair value of $50,317, and incurred US $550,000 to earn a 51% interest in eight exploration permits. Hodges may increase its interest to 75% by funding a bankable feasibility study.
During fiscal 2012 the Company surrendered certain uranium claims in Sweden and wrote-off $9,064 in acquisition costs and exploration expenditures.

Other Properties

On January 4, 2010 the Company entered into an option agreement to acquire up to a 100% interest in three exploration licenses (the "Orrbacken Project") in Sweden. The Company could acquire an initial 90% interest in the Orrbacken Project by paying a total of SEK 1,600,000 over four years. Upon acquisition of the 90% interest, the Company has the right to purchase the remaining 10% interest for SEK 5,000,000.

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)

On January 11, 2010 the Company entered into an agreement whereby the optionee could earn a 70% interest (the "Interest") in the Company's acquired interest in the Orrbacken Project by spending AUS $2,000,000 over five years. The optionee will also pay AUS $300,000 to the Company upon the transfer of the Interest.

During fiscal 2012 the Company surrendered certain base metal exploration permits in Sweden and wrote-off $2,584 in acquisition costs and exploration expenditures.

9. PLAN OF ARRANGEMENT

On April 30, 2012 the Company completed the Plan of Arrangement under which the Company's shareholders received 17,408,070 common shares of Darwin and 10,727,969 common shares of European Uranium, on a basis of one-third Darwin common share and one-fifth European Uranium common share for each Company common share held. The distribution of the Darwin and European Uranium common shares to the shareholders of the Company at the closing date via a return of capital of the Company was recorded in the amount of $4,320,712.

The Plan of Arrangement was approved by the shareholders of the Company at an annual and special meeting held on March 30, 2012 and was also approved by the Supreme Court of British Columbia on April 9, 2012.

10. SHARE CAPITAL

(a) *Authorized Share Capital*

As at May 31, 2012 the Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Reconciliation of Changes in Share Capital*

Common shares issued:	**Number of Shares**	**Amount $**
Balance at June 1, 2010	42,697,253	24,718,992
Shares issued for cash		
Private placement	7,000,000	5,530,000
Exercise of share options	1,018,500	538,370
Exercise of warrants	930,000	778,500
Transfer to common shares on exercise of share options	-	370,290
Share issue costs	-	(22,947)
Balance at May 31, 2011	51,645,753	31,913,205
Shares issued for cash		
Exercise of share options	553,500	319,020
Exercise of warrants	25,000	30,000
Transfer to common shares on exercise of share options	-	235,149
Return of capital on spin-out (Note 9)	-	(4,320,712)
Balance at May 31, 2012	52,224,253	28,176,662

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

During fiscal 2011 the Company completed a private placement of 7,000,000 units at $0.79 per unit for gross proceeds of $5,530,000. Each unit comprised one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of $1.20 per share on or before October 25, 2012. The Company assigned a $5,530,000 fair value to the common shares and $nil fair value to the warrants.

The Company paid a cash finder's fee of $4,740 and filing fees of $18,207 relating to this financing.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at May 31, 2012 and 2011, and the changes for the years ended on those dates, is as follows:

	Number	Weighted Average Exercise Price $
Balance at June 1, 2010	4,967,012	0.96
Issued	3,500,000	1.20
Exercised	(930,000)	0.84
Balance at May 31, 2011	7,537,012	1.09
Exercised prior to Plan of Arrangement	(25,000)	1.20
Balance before Plan of Arrangement	7,512,012	1.09
Adjustment on Plan of Arrangement	1,285,125	-
Balance at May 31, 2012	8,797,137	0.93

As a result of the implementation of the Plan of Arrangement and the contractual rights attached to previously issued warrants there have been amendments made to the outstanding warrants such that the number of warrants exercisable and exercise price has been amended and, as a result, 4,217,012 warrants previously issued at an exercise price of $1.00 have been amended to 4,920,667 warrants with an exercise price of $0.857 and 3,295,000 warrants previously issued at an exercise price of $1.20 have now been amended to 3,876,470 warrants with an exercise price of $1.02.

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at May 31, 2012:

Number	Exercise Price $	Expiry Date
3,876,470	1.02	October 25, 2012
4,920,667	0.857	May 12, 2014
8,797,137		

(d) *Share Option Plan*

The Company has established a rolling share option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

During fiscal 2012 the Company granted 445,000 (2011 - 2,150,000) share options to its directors, officers and consultants and recorded share-based compensation expense of $456,450 (2011 - $1,591,000).

The fair value of share options granted during fiscal 2012 and 2011 is estimated using the Black-Scholes option pricing model using the following assumptions:

	2012	2011
Risk-free interest rate	1.34% - 1.87%	1.16% - 1.89%
Estimated volatility	86% - 135%	134% - 138%
Expected life	3 years	3 years
Expected dividend yield	0%	0%
Expected forfeiture rate	0%	0%

The weighted average fair value of all share options granted during fiscal 2012 was $1.03 (2011 - $0.74) per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

A summary of the Company's share options at May 31, 2012 and 2011 and the changes for the years ending on those dates, is as follows:

	2012		2011	
	Number of Options Outstanding	Weighted Average Exercise Price $	Number of Options Outstanding	Weighted Average Exercise Price $
Balance, beginning of year	2,611,500	0.84	1,600,000	0.52
Granted	445,000	1.49	2,150,000	0.93
Exercised	(553,500)	0.58	(1,018,500)	0.53
Expired	(30,000)	0.61	(120,000)	0.77
Balance, end of year	2,473,000	1.02	2,611,500	0.84

The following table summarizes information about the share options outstanding and exercisable at May 31, 2012:

Number	Exercise Price $	Expiry Date
100,000	0.41	May 3, 2013
1,778,000	0.82	October 18, 2013
150,000	2.35	February 14, 2014
220,000	1.72	August 2, 2014
100,000	1.30	May 5, 2015
125,000	1.24	May 29, 2015
2,473,000		

(Expressed in Canadian Dollars)

11. RELATED PARTY DISCLOSURES

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

(a) *Transactions with Key Management Personnel*

During fiscal 2012 and 2011 the following amounts were incurred with respect to the Company's President, Vice-President of Exploration and Chief Financial Officer:

	2012 $	2011 $
Management fees *	162,000	160,000
Professional fees	285,122	66,800
Rent	4,800	4,800
Share-based compensation	-	655,000
	451,922	886,600

As at May 31, 2012, $22,854 (2011 - $17,300) of the above amounts remained unpaid and has been included in accounts payable and accrued liabilities.

* The management agreement provides that in the event services are terminated without cause or upon a change of control of the Company, a termination payment of two years of compensation, at $13,500 per month, is payable. If the termination had incurred on May 31, 2012, the amount payable under the agreement would be $324,000.

(b) *Transactions with Other Related Parties*

During fiscal 2012 and 2011 the following amounts were incurred with respect to other current and former officers and directors of the Company:

	2012 $	2011 $
Professional fees	98,750	93,000
Health benefits	659	-
Share-based compensation	81,000	399,750
	180,409	492,750

As at May 31, 2012, $18,750 (2011 - $10,000) of the above amounts remained unpaid and has been included in accounts payable and accrued liabilities.

(c) During fiscal 2012 the Company incurred $5,611 (2011 - $11,550) for shared administration and other costs with Tumi. As at May 31, 2012, $5,611 (2011 - $550) of the amount remained unpaid and has been included in accounts payable and accrued liabilities.

(d) During fiscal 2011 the Company recovered $40,624 for shared office personnel and costs from Tasman Metals Ltd., a public company with common directors and officers.

(e) See also Notes 1 and 9.

(Expressed in Canadian Dollars)

12. INCOME TAXES

Deferred income tax assets and liabilities of the Company as at May 31, 2012 and 2011, are as follows:

	2012 $	2011 $
Deferred income tax assets (liabilities)		
Losses carried forward	3,040,500	2,121,700
Temporary difference on held-for-trading investments	(800)	(22,300)
Other	11,900	15,800
	3,051,600	2,115,200
Valuation allowance	(3,051,600)	(2,115,200)
Net deferred income tax asset	-	-

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

	2012 $	2011 $
Income tax rate reconciliation		
Combined federal and provincial income tax rate	25.9%	27.42%
Expected income tax recovery	1,486,700	891,000
Taxable capital gain on spin-out	(585,900)	-
Effect of income tax rate changes	(83,800)	(84,600)
Foreign income tax rate differences	13,400	6,200
Non-deductible share-based compensation	(118,200)	(436,300)
Unrealized gain (loss) on held-for-trading investments	(22,300)	14,500
Other	(19,500)	(73,200)
Unrecognized benefit of income tax losses	(670,400)	(317,600)
Actual income tax recovery	-	-

As at May 31, 2012, the Company has non-capital losses of approximately $4,880,600 and accumulated pools of approximately $47,600 for Canadian income tax purposes and are available to reduce taxable income of future years. The non-capital losses expire commencing in 2014 through 2032. The Company's subsidiary in Sweden has losses for income tax purposes of approximately $6,700,000 which may be carried forward indefinitely. The Company's subsidiary in Finland has losses for income tax purposes of approximately $238,000 which expire in 2022.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: fair value through profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	2012 $	2011 $
Cash	FVTPL	7,351,494	12,967,129
Investments - common shares	Available-for-sale	355,000	612,500
Investments - warrants	FVTPL	3,000	89,000
Amounts receivable	Loans and receivables	153,039	177,739
Accounts payable and accrued liabilities	Other liabilities	(779,961)	(197,546)

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, amounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The recorded amount for the investment approximates its fair value. The Company's fair value of cash, short-term investments and investments under the fair value hierarchy are measured using Level 1 inputs.

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

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote.

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 fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	Contractual Maturity Analysis at May 31, 2012				
	Less than 3 Months $	**3 - 12 Months $**	**1 - 5 Years $**	**Over 5 Years $**	**Total $**
Cash	7,351,494	-	-	-	7,351,494
Investments - common shares	355,000	-	-	-	355,000
Investments - warrants	-	3,000	-	-	3,000
Amounts receivable	153,039	-	-	-	153,039
Accounts payable and accrued liabilities	(779,961)	-	-	-	(779,961)

	Contractual Maturity Analysis at May 31, 2011				
	Less than 3 Months $	**3 - 12 Months $**	**1 - 5 Years $**	**Over 5 Years $**	**Total $**
Cash	12,967,129	-	-	-	12,967,129
Investments - common shares	612,500	-	-	-	612,500
Investments - warrants	-	89,000	-	-	89,000
Amounts receivable	177,739	-	-	-	177,739
Accounts payable and accrued liabilities	(197,546)	-	-	-	(197,546)

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 the cash bears floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

(b) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major transactions are transacted in Canadian Dollars and Swedish Kronors ("SEK"). The Company maintains SEK bank accounts in Sweden and US Dollars and Soles in Peru to support the cash needs of its foreign operations. Management believes the foreign exchange risk related to currency conversions is minimal and therefore does not hedge its foreign exchange risk. At May 31, 2012, 1 Canadian Dollar was equal to 7.03 SEK, 0.98 US Dollar and 0.78 Euros.

Balances are as follows:

	Swedish Kronors	**United States Dollars**	**Finland Euros**	**CDN $ Equivalent**
Cash	1,282,186	96,741	73,818	375,743
Amounts receivable	156,927	-	46,441	81,862
Accounts payable and accrued liabilities	(654,839)	(146)	(413,683)	(623,660)
	784,274	96,595	(293,424)	(166,055)

Based on the net exposures as of May 31, 2012 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the SEK, US Dollar and Euros would result in the Company's net loss being approximately $15,000 higher (or lower).

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, cash and cash equivalents and short-term investments. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

14. SUPPLEMENTAL CASH FLOW INFORMATION

During fiscal 2012 and 2011 non-cash activities were conducted by the Company as follows:

	2012 $	2011 $
Operating activity		
Increase in accounts payable and accrued liabilities	416,929	25,500
Investing activity		
Additions to exploration and evaluation assets	(416,929)	(25,500)
Financing activities		
Issuance of share capital	235,149	-
Share-based payments reserve	(235,149)	-
	-	-

15. SEGMENTED INFORMATION

The Company operates in one reportable segment, the exploration and development of unproven exploration and evaluation assets. As at May 31, 2012 the Company's exploration and evaluation assets are located in Finland and Sweden and its corporate assets, comprising mainly of cash, are located in Canada. The Company is in the exploration stage and has no reportable segment revenues or operating results.

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

	As at May 31, 2012				
	Canada $	Sweden $	Finland $	Peru $	Total $
Current assets	7,222,800	209,589	155,265	-	7,587,654
Investments	358,000	-	-	-	358,000
Property, plant and equipment	7,409	26,641	-	230,850	264,900
Exploration and evaluation assets	-	11,481	4,889,442	-	4,900,923
	7,588,209	247,711	5,044,707	230,850	13,111,477

(Expressed in Canadian Dollars)

15. SEGMENTED INFORMATION (continued)

	As at May 31, 2011				
	Canada $	**Sweden** $	**Finland** $	**Peru** $	**Total** $
Current assets	12,641,154	425,856	-	143,025	13,210,035
Investments	701,500	-	-	-	701,500
Property, plant and equipment	14,033	70,927	-	260,976	345,936
Exploration and evaluation assets	-	4,216,474	2,882,494	685,530	7,784,498
	13,356,687	4,713,257	2,882,494	1,089,531	22,041,969

16. EVENTS AFTER THE REPORTING PERIOD

Subsequent to May 31, 2012 the Company:

(i) issued 10,000 common shares on the exercise of share options for proceeds of $8,200; and
(ii) granted share options to a consultant to purchase 50,000 common shares of the Company at a price of $1.49 per share expiring August 9, 2015.

17. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ending May 31, 2012 will be the first annual financial statements that comply with IFRS and these consolidated financial statements were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement, in those financial statements, of compliance with IFRS.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was June 1, 2010 (the "transition date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be May 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption.

Initial elections upon IFRS adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Exemption options

Share-based payments - IFRS 2 *Share-Based Payments* encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. The Company has chosen to apply the exemption under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by the transition date.

IFRS Mandatory exceptions

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

(Expressed in Canadian Dollars)

17. TRANSITION TO IFRS (continued)

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an effect on the total operating, investing and financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity and comprehensive loss.

Reconciliation of Assets, Liabilities and Equity

	As at June 1, 2010		
	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS			
Current assets			
Cash	9,532,677	-	9,532,677
Amounts receivable	128,106	-	128,106
Prepaid expenses and deposits	20,907	-	20,907
Total current assets	9,681,690	-	9,681,690
Non-current assets			
Investments	663,544	-	663,544
Property, plant and equipment	140,921	-	140,921
Exploration and evaluation assets	5,653,454	-	5,653,454
Total non-current assets	6,457,919	-	6,457,919
TOTAL ASSETS	16,139,609	-	16,139,609
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	211,740	-	211,740
TOTAL LIABILITIES	211,740	-	211,740
SHAREHOLDERS' EQUITY			
Share capital	24,718,992	-	24,718,992
Share-based payments reserve	3,686,406	-	3,686,406
Deficit	(11,579,756)	-	(11,579,756)
Accumulated other comprehensive loss	(897,773)	-	(897,773)
TOTAL SHAREHOLDERS' EQUITY	15,927,869	-	15,927,869
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	16,139,609	-	16,139,609

(Expressed in Canadian Dollars)

17. TRANSITION TO IFRS (continued)

Reconciliation of Assets, Liabilities and Equity (continued)

	As at May 31, 2011		
	Canadian GAAP $	**Effect of Transition to IFRS $**	**IFRS $**
ASSETS			
Current assets			
Cash and cash equivalents	12,967,129	-	12,967,129
Amounts receivable	177,739	-	177,739
Prepaid expenses and deposits	65,167	-	65,167
Total current assets	13,210,035	-	13,210,035
Non-current assets			
Investments	701,500	-	701,500
Property, plant and equipment	345,936	-	345,936
Exploration and evaluation assets	7,784,498	-	7,784,498
Total non-current assets	8,831,934	-	8,831,934
TOTAL ASSETS	22,041,969	-	22,041,969
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	197,546	-	197,546
TOTAL LIABILITIES	197,546	-	197,546
SHAREHOLDERS' EQUITY			
Share capital	31,913,205	-	31,913,205
Share-based payments reserve	4,907,116	-	4,907,116
Deficit	(14,828,398)	-	(14,828,398)
Accumulated other comprehensive loss	(147,500)	-	(147,500)
TOTAL SHAREHOLDERS' EQUITY	21,844,423	-	21,844,423
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	22,041,969	-	22,041,969

(Expressed in Canadian Dollars)

17. TRANSITION TO IFRS (continued)

Reconciliation of Comprehensive Loss (continued)

	Year Ended May 31, 2011		
	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
Expenses			
Accounting and administration	36,800	-	36,800
Audit	35,724	-	35,724
Corporate development	139,974	-	139,974
Depreciation	52,272	-	52,272
General exploration	290,248	-	290,248
Investor relations	42,000	-	42,000
Legal	2,650	-	2,650
Management fees	193,000		193,000
Office and sundry	134,877	-	134,877
Professional fees	186,468	-	186,468
Regulatory fees	22,022	-	22,022
Rent	39,438	-	39,438
Salaries and benefits	255,964	-	255,964
Shareholder costs	16,008	-	16,008
Share-based compensation	1,591,000	-	1,591,000
Transfer agent	10,710	-	10,710
Travel	191,161	-	191,161
	3,240,316	-	3,240,316
Loss before other items	(3,240,316)	-	(3,240,316)
Other items			
Recovery of expenses	40,624	-	40,624
Interest and other income	114,511	-	114,511
Loss on sale of available-for-sale investments	(219,318)	-	(219,318)
Unrealized gain on held-for-trading investments	53,000	-	53,000
Gain on sale of property plant and equipment	5,926	-	5,926
Foreign exchange	(3,069)	-	(3,069)
	(8,326)	-	(8,326)
Loss before deferred income taxes	(3,248,642)	-	(3,248,642)
Deferred income tax recovery	103,800	-	103,800
Net loss for the year	(3,144,842)	-	(3,144,842)
Other comprehensive income, net of deferred income taxes	646,473	-	646,473
Comprehensive loss for the year	(2,498,369)	-	(2,498,369)

17. TRANSITION TO IFRS (continued)

IFRS Adjustments

Share Based Options

Previously, under Canadian GAAP, the Company used the straight-line method of calculating vested options and the share-based compensation arising therefrom. Under this method, the fair value of share-based awards with graded vesting was calculated as one grant and the resulting fair value was recognised on a straight line basis over the vesting period.

However, IFRS requires that each tranche of an award with different vesting dates be considered a separate grant for the calculation of fair value, and the resulting fair value is recognised over the vesting period of the respective tranche using the graded vesting method.

No adjustments were required for the options granted and the share-based compensation recognized during fiscal 2011.