AM GOLD INC.

Consolidated Interim Financial Statements

September 30, 2011

(Expressed in Canadian Dollars)

(unaudited)

AM GOLD INC.

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MANAGEMENT'S RESPONSIBILITY FOR
UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited consolidated interim financial statements of AM Gold Inc. (the "Company") as at September 30, 2011 and for the three and nine months then ended have been prepared by and is the responsibility of the Company's management. In accordance with National Instrument 51 – 102, the Company discloses that its auditors have not reviewed the accompanying unaudited consolidated interim financial statements as at September 30, 2011 and for the three and nine months then ended.

The unaudited consolidated interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited consolidated interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the financial position date. In the opinion of management, the unaudited consolidated interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited consolidated interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited consolidated interim financial statements and (ii) the unaudited consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited consolidated interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited consolidated interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed consolidated interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited consolidated interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

AM GOLD INC.

Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars)

(unaudited)

	September 30, 2011	*December 31, 2010*
ASSETS		
Current assets		
Cash and cash equivalents *(Note 4)*	**$ 1,236,778**	$ 2,132,754
Receivables *(Note 5)*	**173,540**	50,485
Prepaid expenses and deposit *(Note 6)*	**212,283**	54,222
Total current assets	**1,622,601**	2,237,461
Equipment *(Note 7)*	**306,449**	349,818
Exploration and evaluation assets *(Note 8)*	**6,153,926**	6,070,301
Total assets	**$ 8,082,976**	$ 8,657,580
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities *(Note 9 and 12)*	**$ 434,500**	$ 256,033
Total current liabilities	**434,500**	256,033
EQUITY		
Share capital *(Note 10)*	**59,764,637**	55,241,533
Equity reserves	**6,986,609**	6,282,815
Deficit	**(59,102,770)**	(53,122,801)
Total equity	**7,648,476**	8,401,547
Total liabilities and equity	**$ 8,082,976**	$ 8,657,580

Nature and Continuance of Operations (Note 1)
Commitments (Note 11)
Subsequent event (Note 15)

Approved and authorized by the Board on November 24, 2011

"John Fiorino" *Director and CEO*

"Mark Lawson" *Director and CFO*

AM GOLD INC.

Consolidated Interim Statements of Operation and Comprehensive Loss

(Expressed in Canadian Dollars)

(unaudited)

	Three Months Ended September 30, 2011	*Three Months Ended September 30, 2010*	*Nine Months Ended September 30, 2011*	*Nine Months Ended September 30, 2010*
Expenses:				
Accounting and audit	$ 10,250	$ 5,383	$ 39,498	$ 33,192
Administration	-	-	-	3,750
Depreciation	14,954	6,582	37,729	20,993
Bank charges and interest	2,394	3,626	17,284	8,342
Consulting fees *(Note 12)*	9,450	49,683	145,068	89,433
Director fees *(Note 12)*	9,769	55,792	9,769	55,792
Insurance and dues	8,453	3,478	23,433	5,180
Interest expense	-	-	-	4,416
Legal	40,982	17,354	83,370	36,257
Mineral property exploration *(Note 8 and 12)*	3,005,224	1,684,813	4,189,396	1,912,447
Office and miscellaneous	23,946	46,730	64,842	89,123
Printing and shareholders' information	39,774	13,988	144,207	76,818
Rent *(Note 12)*	5,250	3,500	14,000	15,750
Share-based compensation *(Note 14)*	599,536	851,220	623,851	851,220
Stock exchange fees and filing fees	6,929	25,503	20,305	43,658
Telephone and utilities	1,884	4,828	11,378	14,028
Transfer agent fees	14,558	18,630	24,363	31,874
Travel and business development	7,459	143,089	76,899	171,152
Wages	33,976	38,956	108,393	88,916
Total expenses	3,834,788	2,973,155	5,633,785	3,552,341
Other income (expenses)				
Interest and sundry	3,643	2,347	8,437	8,587
Gain on settlement of debt	-	-	-	25,381
Foreign exchange loss	(128,790)	(7,777)	(354,621)	(192,424)
Total other expenses	(125,147)	(5,430)	(346,184)	(158,456)
Loss and comprehensive loss for the period	$ (3,959,935)	$ (2,978,585)	$ (5,979,969)	$ (3,710,797)
Basic and diluted loss per common share	$ (0.06)	$ (0.07)	$ (0.10)	$ (0.10)
Weighted average number of common shares outstanding	68,465,278	41,073,669	59,214,991	36,028,914

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

AM GOLD INC.

Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian Dollars)

(unaudited)

	Share Capital				
	Number of Shares	*Amount*	*Equity Reserves*	*Deficit*	*Shareholders' Equity*
Balance, January 1, 2010	30,417,524	$ 49,160,760	$ 4,953,497	$ (48,353,987)	$ 5,760,270
Issued for cash	11,398,666	2,938,952	-	-	2,938,952
Issued for debt settlement agreement	571,428	200,000	-	-	200,000
Issued for debt	310,000	69,750	-	-	69,750
Issued for acquisition of mineral properties	200,000	96,000	-	-	96,000
Issued for flow through shares	5,500,214	1,730,075			1,730,075
Exercise of share purchase warrants	4,062,705	996,012	-	-	996,012
Warrants exercised for debt	128,125	29,125	-	-	29,125
Exercise of stock options	100,000	35,000	-	-	35,000
Share issuance costs	-	(338,521)	-	-	(338,521)
Share-based compensation	-	-	851,220	-	851,220
Net loss for the period	-	-	-	(3,710,797)	(3,710,797)
Balance, September 30, 2010	52,688,662	54,917,153	5,804,717	(52,064,784)	8,657,086
Exercise of share purchase warrants	971,531	250,910	-	-	250,910
Exercise of stock options	700,000	351,516	(106,516)	-	245,000
Share issuance costs	-	(221,475)	221,475	-	-
Share-based compensation	-	-	363,139	-	363,139
Renunciation of flow through shares	-	(56,571)	-	56,571	-
Net loss for the period	-	-	-	(1,114,588)	(1,114,588)
Balance, December 31, 2010	54,360,193	55,241,533	6,282,815	(53,122,801)	8,401,547
Issued for cash	2,196,500	702,880	-	-	702,880
Issued for flow through shares	10,414,285	3,645,000	-	-	3,645,000
Issued for acquisition of mineral properties	175,000	58,625	-	-	58,625
Exercise of broker's warrants	80,948	52,799	(23,560)	-	29,239
Exercise of share purchase warrants	1,408,412	403,295	-	-	403,295
Exercise of stock options	275,000	185,285	(89,035)	-	96,250
Share issuance costs	-	(524,780)	192,538	-	(332,242)
Share-based compensation	-	-	623,851	-	623,851
Net loss for the period	-	-	-	(5,979,969)	(5,979,969)
Balance, September 30, 2011	**68,910,338**	**$ 59,764,637**	**$ 6,986,609**	**$ (59,102,770)**	**$ 7,648,476**

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

AM GOLD INC.

Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

(unaudited)

	Nine Months Ended September 30, 2011	*Nine Months Ended September 30, 2010*
Cash flows from operating activities		
Loss for the period	$ (5,979,969)	$ (3,710,797)
Items not involving cash		
Depreciation	37,729	20,993
Share-based compensation	623,851	851,220
Unrealized foreign exchange gain	-	(59,528)
	(5,318,389)	(2,898,112)
Changes in non-cash working capital		
Receivables	(123,055)	(106,911)
Prepaid expenses and deposit	(158,061)	(8,898)
Accounts payable and accrued liabilities	178,467	87,644
Net cash used in operating activities	(5,421,038)	(2,926,277)
Cash flows from investing activities		
Acquisition (disposition) of equipment	5,640	(1,178)
Acquisition of mineral property	(25,000)	(100,000)
Net cash used in investing activities	(19,360)	(101,178)
Cash flows from financing activities		
Repayment of note payable	-	(420,000)
Share subscription receivable	-	129,063
Issuance of capital stock	4,876,664	5,769,789
Share issuance costs	(332,242)	(338,521)
Net cash provided by financing activities	4,544,422	5,140,331
Change in cash and cash equivalents during the period	(895,976)	2,112,876
Cash and cash equivalents, beginning of period	2,132,754	431,879
Cash and cash equivalents, end of period	$ 1,236,778	$ 2,544,755

Supplemental disclosure with respect to Cash Flows *(Note 14)*

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

1. NATURE AND CONTINUANCE OF OPERATIONS

AM Gold Inc. (the "Company"), is a junior resource public company incorporated under the laws of the province of British Columbia, Canada. The Company's shares are listed on the Frankfurt Stock Exchange under the trading symbol of "AMX" and TSX Venture Exchange ("TSX.V") under the trading symbol "AMG".

The Company is a mineral exploration and development company with mineral properties in Yukon Territory, Canada and in Peru, South America.

The Company's registered office is located at 605 - 369 Terminal Avenue. Vancouver, British Columbia, Canada.

The financial statements of the Company are presented in Canadian dollars, which is the functional currency of the parent company and subsidiaries, unless otherwise noted.

The Company is in the process of exploring its resource properties and has not yet determined whether the resource properties contain reserves that are economically recoverable. The recoverability of amounts shown for the resource properties are dependent upon the discovery of economically recoverable reserves, confirmation of the company's interest in the underlying mineral claims, the ability of the company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof. The business of mining and exploring for resources involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. Changes in future conditions could require material write-downs of the carrying values of resource properties.

2. BASIS OF PREPARATION

These unaudited consolidated interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting.

The preparation of these consolidated interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements. They have also been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS1"). The impact of the transition from GAAP to IFRS is explained in Note 17.

The consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates.

2. BASIS OF PREPARATION (continued)

These consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

1. the recoverability of receivables which are included in the consolidated interim statements of financial position;
2. the carrying value and the recoverability of exploration and evaluation, which are included in the consolidated interim statements of financial position;
3. the estimated useful lives of equipment which are included in the consolidated interim statements of financial position and the related amortization included in profit or loss;
4. the inputs used in the accounting for stock-based compensation expense included in profit or loss.

Going Concern of Operations

These consolidated interim financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing and to develop profitable operations. However, the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In addition, management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

As the Company is in the exploration and evaluation stage, the Company has not identified a known body of commercial grade mineral on any of its properties. The ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company identifying a commercial mineral body, to finance its development costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the property. To date, the Company has not earned any revenues.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are expected to be adopted for the year ending December 31, 2011 and have been applied consistently to all periods presented in these consolidated interim financial statements and in preparing the opening IFRS balance sheet at January 1, 2010. For the purposes of the transition to IFRS, unless otherwise indicated.

Basis of consolidation

These consolidated interim financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date that control ceases. All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

Foreign currencies

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in lAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate of the transaction. Monetary assets and liabilities of the Company that are denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the end of each reporting period. Non-monetary assets and liabilities are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined. Exchange gains and losses arising on translation are included in the statement of comprehensive loss.

Cash and cash equivalents

Cash is comprised of cash on hand. Cash equivalents consists of short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Receivables

Receivables are recorded at face value less any provisions for uncollectible accounts considered necessary.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets

Financial assets are classified as into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

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

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

Held-to-maturity ("HTM")

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized costs using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the profit or loss.

Loans and receivables

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

Available-for-sale ("AFS")

Non-derivative financial assets not included the above categories *are* classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the profit or loss.

The Company has classified its financial assets as follows:

Cash and cash equivalents are classified as FVPTL.

Receivables are classified as loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Liabilities

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss; and
- Other financial liabilities

Fair value through profit or loss

This category comprises of derivatives, or liabilities, acquired or incurred principally for the purpose of seeing or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the profit or loss.

Other financial liabilities

This category includes promissory notes, amounts due to related parties and accounts payable and accrued liabilities, all of which are recognized at amortized cost.

The Company classified its financial liabilities which consisted of accounts payable and accrued liabilities and note payable as other liabilities.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. 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 assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a 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 or loss.

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 was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment

Equipment is recorded at historical cost less accumulated depreciation and impairment charges. Equipment is depreciated using a declining balance basis over the estimated useful lives of the individual assets. The Company provides for depreciation computed under the straight-line method for office equipment, camp equipment and computer at 25% per annum.

The Company's equipment is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated. Impairment losses are recognized in profit or loss. An impairment loss is reversed if there is an indication that 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 amortization, if no impairment loss had been recognized.

The cost of replacing part of the equipment is recognized in the carrying amount of the equipment if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of the equipment are recognized in profit or loss as incurred.

Mineral properties – exploration and evaluation assets

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the transferee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties – exploration and evaluation assets

Exploration and evaluation assets (continued)

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as '1mines under construction." Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

Impairment of tangible and intangible assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit of loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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 to an amount that 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Rehabilitation provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company does not have any significant rehabilitation obligations.

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based compensation is transferred to accumulated losses (deficit).

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, there are measured at fair value of the share-based payment. Otherwise, share based payments are measured at the fair value of goods or services received.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Warrants issued in equity financing transactions

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. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each of the equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. Warrants that are part of units are assigned $Nil value and included in share capital with the common shares that were concurrently issued. Warrants that are issued as payment for agency fee or other transactions costs are accounted for as share based payments.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards yet adopted

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, (Financial Instruments: Recognition and Measurement). In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entitles would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact on the Company upon implementation of the issued standard.

4. CASH AND CASH EQUIVALENTS

		September 30, 2011		December 31, 2010
Cash on deposit	$	1,225,220	$	126,075
Liquid short term deposit	$	11,558	$	2,006,679
	$	1,236,778	$	2,132,754

5. RECEIVABLES

The Company's receivables mainly arise from Harmonized Sales Tax (HST) receivable due from Canadian government taxation authorities.

		September 30, 2011		December 31, 2010
Harmonized Sales Tax (HST) receivable	$	173,540	$	50,485
	$	173,540	$	50,485

6. PREPAID EXPENSES AND DEPOSITS

The prepaid expenses for the Company are broken down as follows:

		September 30, 2011		December 31, 2010
Prepaid mining expenses	$	190,587	$	49,080
Prepaid insurance	$	21,696	$	5,142
	$	212,283	$	54,222

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(Unaudited)

7. EQUIPMENT

	Office equipment	*Computers*	*Camp and equipment*	*Total*
Cost				
Balance, January 1, 2010	$ 75,071	$ 99,522	$ 428,781	$ 603,374
Addition	-	-	-	-
Disposal	-	-	(929)	(929)
Balance, December 31, 2010	75,071	99,522	427,852	602,445
Addition	-	-	-	-
Disposal	-	-	(5,640)	(5,640)
Balance, September 30, 2011	75,071	99,522	422,212	596,805
Accumulated depreciation				
Balance, January 1, 2010	$ 28,783	$ 40,056	$ 125,417	$ 194,256
Depreciation for the year	11,106	18,460	28,805	58,371
Balance, December 31, 2010	39,889	58,516	154,222	252,627
Depreciation for the period	7,049	8,641	22,039	37,729
Balance, September 30, 2011	$ 46,938	$ 67,157	$ 176,261	$ 290,356
Carrying amounts				
As at December 31, 2010	$ 35,182	$ 41,006	$ 273,630	$ 349,818
As at September 30, 2011	$ 28,133	$ 32,365	$ 245,951	$ 306,449

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8. MINERAL PROPERTIES - EXPLORATION AND EVALUATION ASSETS

	Red Mountain	Pinaya	Total
Balance as of January 1, 2010	$ 43,751	$ 5,830,550	$ 5,874,301
Cost incurred	196,000	-	196,000
Write off	-	-	-
Balance as of December 31, 2010	$ 239,751	$ 5,830,550	$ 6,070,301
Cost incurred	83,625	-	83,625
Write off	-	-	-
Balance as of September 30, 2011	$ 323,376	$ 5,830,550	$ 6,153,926

a) Yukon Territory, Canada

Red Mountain Property

In prior years, the Company had earned a 75% interest in the 52 mineral property claims located in the Yukon Territory Canada, known as the Red Mountain Property. During the year ended December 31, 2009, the Company entered into an amended agreement to increase its interest to 80% of the property subject to a 2% Net Smelter Royalty to be paid to the vendor following commencement of commercial production. In consideration, the Company has issued 175,000 post consolidated common shares of the Company to the vendor. The fair value per share on the date the shares were issued was $0.25 per share.

On August 17, 2010, the Company entered into a Purchase Agreement for the remaining 20% interest of the Red Mountain Property. The Company has agreed to pay the following:

a) $50,000 upon execution of the agreement (paid).
b) $50,000 (paid) and 200,000 common shares (issued) within 7 days upon approval by regulatory authorities.
c) $25,000 (paid) and 175,000 common shares (issued) on or before August 17, 2011.
d) $25,000 and 175,000 common shares or $175,000, at the Company’s discretion, will be paid on or before August 17, 2012.
e) $50,000 and 450,000 common shares or $450,000, at the Company’s discretion, will be paid on or before August 17, 2013.
f) A bonus will be paid of $250,000 in cash or common shares, at the Company’s discretion, if a resource of 2 million ounces of gold is defined through an NI 43-101 compliant report.

The NSR payable is reduced from 2% to 0.5% by the Company agreeing to pay $1,000,000 for the first 1% of the NSR and $750,000 for the second 0.5% of the NSR at any time, at the Company's discretion.

(Expressed in Canadian Dollars)

8. MINERAL PROPERTIES - EXPLORATION AND EVALUATION ASSETS (continued)

b) Peru, South America

Peru Pinaya Property

During 2004 the Company acquired a 100% interest in Canper Exploraciones S.A.C. Canper Exploraciones, S.A.C. owns an option to acquire the mineral rights for the Pinaya Property in Southern Peru. The option agreement requires the Company to pay to the owners of the mineral rights the following amounts on the following times

i) U.S. $200,000 when the public deed is executed on the transfer of the option agreement (May 26, 2004) (paid).
ii) U.S. $100,000 payable six months from May 26, 2004 (paid)
iii) U.S. $240,000 payable 12 months from May 26, 2004 (paid)
iv) U.S. $860,000 payable 24 months from May 26, 2004 (paid)
v) U.S. $1,100,000 payable 36 months from May 26, 2004 (paid)

In addition the Company acquired some surface rights during the year for part of the Pinaya Property. The amount expended for surface rights total U.S. $15,000.

Minas Lucho properties

The Company holds four contiguous mineral concessions which comprise the Minas Lucho property in Peru.

La Mamita

The Company purchased mining rights in the La Mamita Concession in Peru. The Company paid $25,000 and issued 25,000 common shares.

Don Pedro 2000 and Panchito

The Company purchased by way of option the rights to the property called the Don Pedro 2000 concession in Peru. The Company paid U.S. $40,000 (2005 U.S. $70,000) with additional payments of the option of U.S. $140,000 as follows:

$U.S.	Due Date
20,000	January 9, 2007 (paid)
20,000	May 9, 2007 (paid)
30,000	September 9, 2007 (paid)
30,000	January 9, 2008 (paid)
40,000	May 9, 2008 (paid)

The Company purchased an undivided 100% interest to certain Peruvian mining rights called the Panchito property. The Company has paid U.S. $11,000 cash and issued 100,000 shares.

(Expressed in Canadian Dollars)

8. MINERAL PROPERTIES - EXPLORATION AND EVALUATION ASSETS (continued)

Peruvian Properties	September 30, 2011	December 31, 2010
Acquisition costs	$ 5,830,550	$ 5,830,550

In addition to the four main concessions above, the Peruvian properties consist of other numerous concessions in one contiguous area in Peru of which detail breakdown is not shown

Mineral property exploration expenses for the nine months ended September 30, 2011:

		Red Mountain		**Pinaya**		**Total**
Drilling and assaying	$	1,984,810	$	2,396	$	1,987,206
Travel and transportation		551,295		49,522		600,817
Consulting and wages		434,931		93,004		527,935
Permitting		17,500		-		17,500
Geological and geophysical		387,350		636,446		1,023,796
Supplies and miscellaneous		19,013		13,129		32,142
Total exploration expenses	$	3,394,899	$	794,497	$	4,189,396

9. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

Accounts payables and accrued liabilities for the Company are broken down as follows:

		September 30, 2011		December 31, 2010
Accounts payable	$	412,120	$	187,138
Accrued liabilities	$	22,380	$	68,895
	$	434,500	$	256,033

10. CAPITAL STOCK

Authorized:

Share capital consists of an unlimited number of common shares without par value.

Issued:

Period ended September 30, 2011:

Exercise of broker's warrants

On February 4, 2011, the Company issued 9,566 common shares at $0.40 per share for total gross proceeds of $3,826 for the exercise of broker's warrants.

On February 4, 2011, the Company issued 62,811 common shares at $0.35 per share for total gross proceeds of $21,984 for the exercise of broker's warrants.

On July 25, 2011, the Company issued 8,571 common shares at $0.40 per share for total gross proceeds of $3,428 for the exercise of broker's warrants.

Exercise of share purchase warrants

On April 1, 2011, the Company issued 50,000 common shares at $0.20 per share for total gross proceeds of $10,000 for the exercise of share purchase warrants.

On May 30, 2011, the Company issued 200,000 common shares at $0.275 per share for total gross proceeds of $55,000 for the exercise of share purchase warrants.

On June 13, 2011, the Company issued 25,000 common shares at $0.275 per share for total gross proceeds of $6,875 for the exercise of share purchase warrants.

On June 30, 2011, the Company issued 300,556 common shares at $0.275 per share for total gross proceeds of $82,653 for the exercise of share purchase warrants.

On July 7, 2011, the Company issued 500,000 common shares at $0.275 per share for total gross proceeds of $137,500 for the exercise of share purchase warrants.

On July 19, 2011, the Company issued 100,000 common shares at $0.20 per share for total gross proceeds of $20,000 for the exercise of share purchase warrants.

On July 25, 2011, the Company issued 197,856 common shares at $0.40 per share for total gross proceeds of $79,142 for the exercise of share purchase warrants.

On August 9, 2011, the Company issued 20,000 common shares at $0.40 per share for total gross proceeds of $8,000 for the exercise of share purchase warrants.

On August 12, 2011, the Company issued 15,000 common shares at $0.275 per share for total gross proceeds of $4,125 for the exercise of share purchase warrants.

10. CAPITAL STOCK (continued)

Exercise of stock options

On April 11, 2011, the Company issued 75,000 common shares at $0.35 per share for total gross proceeds of $26,250 for the exercise of stock options.

On July 22, 2011, the Company issued 200,000 common shares at $0.35 per share for total gross proceeds of $70,000 for the exercise of stock options.

Issued for private placements

On June 30, 2011, the Company issued 8,571,429 flow through common shares at $0.35 per flow through share by way of private placement.

On June 30, 2011, the Company issued 1,562,500 Units at $0.32 per Unit by way of private placement. Each unit consists of one common share of the Company and one-half share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of $0.40 per share until December 30, 2012.

Finder's fees of $265,610 were paid and 608,035 broker's warrants were issued in relation to the private placements closed on June 30, 2011.

On July 8, 2011, the Company issued 1,842,856 flow through common shares at $0.35 per flow through share by way of private placement.

On July 8, 2011, the Company issued 634,000 Units at $0.32 per Unit by way of private placement. Each unit consists of one common share of the Company and one-half share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of $0.40 per share until January 8, 2013.

Finder's fees of $36,678 were paid and 107,880 broker's warrants were issued in relation to the private placements closed on July 8, 2011.

Issued for acquisition of mineral property

On July 27, 201, the Company issued 175,000 common shares at $0.335 per share for a total of $58,625 in relation to acquisition of the remaining 20% interest of Red Mountain Property.

10. CAPITAL STOCK (continued)

Year ended December 31, 2010:

Issued for private placements

On January 14, 2010, the Company issued 1,000,000 Units at $0.225 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of $0.275 per share until July 14, 2011.

On February 11, 2010, the Company issued 385,000 Units at $0.225 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Every two share purchase warrants are exercisable into one common share at a price of $0.275 per share until August 11, 2011. Finder's fees of $473 were paid in relation to the private placement. Included in this placement were 310,000 units issued to offset amounts due to related parties.

On April 28, 2010, the Company issued 4,000,000 Units at $0.20 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of $0.20 per share until April 29, 2012. Finder's fees of $67,506 were paid in relation to the private placement.

On May 17, 2010, the Company issued 1,500,000 flow through Units at $0.22 per Unit by way of private placement. Each unit consists of one flow through common share of the Company and one flow through warrant. Each flow through warrant is exercisable into one flow though common share at $0.30 per share until May 17, 2012. Finder's fees of $16,500 were paid in relation to the private placement.

On August 12, 2010 and September 13, 2010, the Company issued 4,000,214 flow through Units at $0.35 per Unit by way of private placement. Each unit consists of one flow through common share of the Company and one flow through share purchase warrant. Every two flow through share purchase warrants are exercisable into one flow through common share at $0.40 per share. 1,885,714 flow through warrants will expire August 12, 2011 and 2,114,500 flow through warrants will expire September 13, 2011. Finder's fees of $64,333 were paid and 183,523 Brokers share purchase warrants were issued in relation to the private placement. Every two Brokers share purchase warrants are exercisable into one flow through common share at $0.40 per share until September 13, 2011.

On September 13, 2010, the Company issued 6,323,666 Units at $0.30 per Unit by way of private placement. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable into one common share at $0.35 per share until September 13, 2012. Finder's fees of $189,709.80 were paid and 632,366 Brokers share purchase warrants were issued in relation to the private placement. Each Brokers share purchase warrants is exercisable into one common share at $0.35 per share until September 13, 2012.

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10. CAPITAL STOCK (continued)

Issued for debt settlement

On September 16, 2010, the Company issued 571,428 common shares at $0.35 per share for total of $200,000 to settlement debt with Solitaire Minerals Corp.

Issued for acquisition of mineral property

On September 22, 2010, the Company issued 200,000 common shares at $0.48 per share for total of $96,000 in relation to acquisition of the remaining 20% interest of Red Mountain Property.

Stock Options:

The Company has a stock option plan (the "Plan") for directors, senior officers, employees, consultants, and management. The Plan provides for the issuance of stock options to acquire up to a maximum of 10% of the issued and outstanding common shares of the Company. The Plan provides that the vested terms of the options and the option price may be fixed by the directors subject to the price restrictions and other requirements of the TSX Venture Exchange. Options are granted for a term not exceeding five years and the exercise price must be paid in full upon exercise price of the option.

A summary of the status of the Company's stock options as at September 30, 2011 and December 31, 2010, and changes during those years is presented below:

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2010	3,350,000	$0.37
Options issued	1,700,000	$0.50
Exercised	(275,000)	$0.35
Cancelled	(575,000)	$0.39
Expired	(50,000)	$0.35
Balance, September 30, 2011	4,150,000	$0.42

(Expressed in Canadian Dollars)

10. CAPITAL STOCK (continued)

Stock Options, continued

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2009	51,250	$2.96
Options issued	4,150,000	$0.36
Exercised	(800,000)	$0.35
Expired	(51,250)	$2.96
Balance, December 31, 2010	3,350,000	$0.37

The weighted average remaining life of outstanding options at September 30, 2011 is 4.15 (December 31, 2010 – 4.40) years.

During the period ended September 30, 2011, the compensation expense recorded for options fully vested was $623,851 (December 31, 2010 – $1,214,359).

	September 30, 2011	December 31, 2010
Directors	264,525	$ 927,795
Consultants and officers	335,011	262,249
Investor relations	24,315	24,315
Total stock based compensation	623,851	$ 1,214,359

The fair value of the options granted was estimated on the date of grant using the Black-Scholes options-pricing model with the following assumptions:

	September 30, 2011	December 31, 2010
Risk-free interest rate	1.18%	2.02%
Experienced life of options	5 years	4.02 years
Annualized volatility	153%	153%
Dividend rate	0%	0%

Options pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

10. CAPITAL STOCK (continued)

Share purchase warrants

As at September 30, 2011, the Company had share purchase warrants outstanding enabling holders to acquire the following:

3,710,000 share purchase warrants at an exercise price of $0.20 per share until April 29, 2012. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company.

1,450,000 flow through share purchase warrants at an exercise price of $0.30 per share until May 17, 2012. Each flow through share purchase warrant entitles the holder thereof to acquire one flow through common share of the Company.

6,323,666 share purchase warrants at an exercise price of $0.35 per share until September 13, 2012. Each warrant entitles the holder thereof to acquire one common share of the Company.

781,250 share purchase warrants at an exercise price of $0.40 per share until December 30, 2012. Each warrant entitles the holder thereof to acquire one common share of the Company.

317,000 share purchase warrants at an exercise price of $0.40 per share until January 8, 2013. Each warrant entitles the holder thereof to acquire one common share of the Company.

(Expressed in Canadian Dollars)

10. CAPITAL STOCK (continued)

Share purchase warrants, continued

A summary of the Company's issued and outstanding share purchase warrants as at September 30, 2011 and December 31, 2010 and changes during those years is presented below:

	September 30 2011	December 31 2010
Balance, beginning of period	18,274,992	10,545,848
Issued	1,098,251	17,221,380
Expired	(4,124,501)	(2,010,429)
Exercised	(2,666,825)	(7,481,807)
Balance, end of period	12,581,917	18,274,992

Brokers warrants:

As at September 30, 2011, the Company had brokers warrants outstanding enabling holders to acquire the following:

569,555 broker share purchase warrants at an exercise price of $0.35 per share until September 13, 2012. One share purchase warrants entitle the holder thereof to acquire one common share of the Company.

608,035 broker share purchase warrants at an exercise price of $0.40 per share until December 30, 2012. One share purchase warrants entitle the holder thereof to acquire one common share of the Company.

107,880 broker share purchase warrants at an exercise price of $0.40 per share until January 8, 2013. One share purchase warrants entitle the holder thereof to acquire one common share of the Company.

(Expressed in Canadian Dollars)

10. CAPITAL STOCK (continued)

Brokers warrants, continued

A summary of the Company's issued and outstanding broker's warrants as at September 30, 2011 and December 31, 2010 and the changes during the periods is presented below:

	September 30 2011	December 31 2010
Balance, beginning of period	815,889	-
Issued	715,915	815,889
Expired	(147,248)	-
Exercised	(99,086)	-
Balance, end of period	1,285,470	815,889

Fair values of warrants issued to brokers in relation to private placement and for fair values of warrants which were re-priced and had their expiry date extended have been estimated using the Black-Scholes option-pricing model using the following assumptions:

	September 30, 2011	December 31, 2010
Risk-free interest rate	1.24%	1.43%
Experienced life of options	1.5 years	1.87 year
Annualized volatility	205%	205%
Dividend rate	-	-

The value of brokers warrants issued during the period ended September 30, 2011was $192,538 (December 31, 2010 - $221,475).

(Expressed in Canadian Dollars)

11. COMMITMENTS

Office space is rented for $1,750 per month. Rent of office space is on a month to month basis with no lease or other commitment.

Effective August 26, 2011, the Company entered into an agreement for investor relations and corporate communications services. The Company agreed to pay a monthly fee of $6,000 (plus HST) for a term of 12 months until August 25, 2012.

12. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2011, the Company incurred consulting fees of $97,692 (2010: $Nil) with directors and a company owned by a director.

During the nine month period ended September 30, 2011, the Company incurred rent expenses of $5,250 (2010: $Nil) with a company owned by directors.

During the nine month period ended September 30, 2011, the Company incurred director fees of $9,769 (2010: $55,792) with directors.

During nine month period ended September 30, 2011, the Company incurred exploration expenditures and geological consulting fees of $45,308 (2010: $35,063) with directors and companies owned by directors.

As at September 30, 2011, accounts payables includes $1,138 (December 31, 2010: $7,824) owing to officers, directors and companies controlled by common directors and officers of the Company.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

13. SEGMENTED FINANCIAL INFORMATION

The Company's business is considered as operating in one segment, mineral exploration and development. The geographical division of the Company's total assets are as follows:

Assets	**September 30, 2011**	**December 31, 2010**
Canada	686,953	603,328
Peru	5,773,422	5,816,791
	6,460,375	6,420,119

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14. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash transactions are as follows:

	September 30, 2011	September 30, 2010
Share-based compensation	$ 623,851	$ 851,220
Fair value of broker's warrants issued and included in share issuance costs	$ 192,538	$ -
Fair value of broker's warrants reallocated to capital stock	$ 23,560	$ -
Fair value of consultant's stock options reallocated to capital stock	$ 89,035	$ -
Fair value of common shares issued for mineral properties	$ 58,625	$ 96,000
Fair value of warrants exercised for debt	$ -	$ 29,125
Fair value of common shares issued for debt settlement	$ -	$ 200,000

15. SUBSEQUENT EVENT

Subsequent to September 30, 2011, the Company cancelled 200,000 stock options that were granted on June 29, 2010.

16. FINANCIAL AND CAPITAL RISK MANAGEMENT

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

Credit Risk

The Company's credit risk is primarily attributable to cash. The Company has no significant concentration of credit risk arising from operations. Cash is held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2011, the Company had cash balances of $1,236,778 (December 31, 2010 - $2,132,754) and current liabilities of $434,500 (December 31, 2010 - $256,033). The Company has adequate financial resources to settle its current liabilities.

The Company has historically relied on equity and debt financings to satisfy its capital requirements and will continue to depend heavily upon equity capital and debt to finance its activities. There can be no assurance the Company will be able to obtain the required financing in the future on acceptable terms. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing market conditions.

Interest rate risk

The Company is not exposed to risk in the event of interest rate fluctuations. The Company has not entered into any interest rate swaps or other financial arrangements that mitigate the exposure to interest rate fluctuations.

16. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

Foreign currency risk

The Company is not exposed to significant foreign currency risk.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by credit risk, liquidity risk, interest rate risk, foreign exchange risk.

Fair value hierarchy

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The fair value of cash and cash in circulation is measured based on level 1 inputs of the fair value hierarchy.

17. FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these consolidated financial statements are for the period covered by the Company's first interim consolidated financial statements prepared in accordance with IFRS.

The accounting policies in Note 3 have been applied in preparing the consolidated interim financial statements for the nine months ended September 30, 2011 and 2010, the consolidated financial statements for the year ended December 31, 2010 and the opening IFRS statement of financial position on the Transition Date, January 1, 2010.

In preparing the opening IFRS statement of financial position and the financial statements for the interim period ended September 30, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with pre-changeover Canadian GAAP. An explanation of how the transition from pre-changeover Canadian GAAP to IFRS has effected the Company's financial position, financial performance and cash flows is set out in the following tables.

The guidance for first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company has elected to take the following IFRS1 optional exemptions:

1. Business combinations

   IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

2. 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 elected to take the exemption available under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by the Transition Date.

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17. FIRST TIME ADOPTION OF IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statements of financial position as at January 1, 2010 (Transition Date to IFRS) is provided below:

Reconciliation of Assets, Liabilities & Equity

As at January 1, 2010	GAAP	Effect of transition to IFRS	Notes	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	$ 431,879			$ 431,879
Receivable	12,687			12,687
Share subscriptions receivable	129,063			129,063
Prepaid expenses and other	3,256			3,256
Total current assets	576,885			576,885
Equipment	409,118			409,118
Exploration and evaluation assets	5,874,301			5,874,301
Total assets	6,860,304			6,860,304
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$ 680,034			$ 680,034
Note payable	420,000			420,000
Total current liabilities	1,100,034			1,100,034
EQUITY				
Share capital	49,160,760			49,160,760
Equity reserves	4,953,497			4,953,497
Deficit	(48,353,987)			(48,353,987)
Total equity	5,760,270			5,760,270
Total liabilities and equity	$ 6,860,304			$ 6,860,304

(Expressed in Canadian Dollars)

17. FIRST TIME ADOPTION OF IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statements of financial position as at September 30, 2010 is provided below:

Reconciliation of Assets, liabilities & Equity

As at September 30, 2010

	GAAP	Effect of transition to IFRS	Notes	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	$ 2,554,755			$ 2,554,755
Receivable	119,598			119,598
Prepaid expenses and other	12,154			12,154
Total current assets	2,676,507			2,676,507
Equipment	448,831			448,831
Exploration and evaluation assets	6,070,301			6,070,301
Total assets	$ 9,195,639			$ 9,195,639
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$ 538,553			$ 538,553
EQUITY				
Share capital	54,917,153			54,917,153
Equity reserves	5,804,717			5,804,717
Deficit	(52,064,784)			(52,064,784)
Total equity	8,657,086			8,657,086
Total liabilities and equity	$ 9,195,639			$ 9,195,639

AM GOLD INC.

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(Unaudited)

17. FIRST TIME ADOPTION OF IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statements of financial position as at December 31, 2010 is provided below:

Reconciliation of Assets, liabilities & Equity

As at December 31, 2010	GAAP	Effect of transition to IFRS	Notes	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	$ 2,132,754			$ 2,132,754
Receivable	50,485			50,485
Prepaid expenses and deposit	54,222			54,222
Total current assets	2,237,461			2,237,461
Equipment	349,818			349,818
Exploration and evaluation assets	6,070,301			6,070,301
Total assets	$ 8,657,580			$ 8,657,580
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$ 256,033			$ 256,033
EQUITY				
Share capital	55,298,104	(56,571)	a)	55,241,533
Equity reserves	6,282,815			6,282,815
Deficit	(53,179,372)	56,571	a)	(53,122,801)
Total equity	8,401,547			8,401,547
Total liabilities and equity	$ 8,657,580			$ 8,657,580

17. FIRST TIME ADOPTION OF IFRS (continued)

Explanation for the adjustment is as follows

a) Flow-through share financing

Under pre-changeover Canadian GAAP, the Company followed the recommendations of the Emerging Issues Committee (“EIC”) of the CICA with respect to flow-through shares, as outlined in EIC-146. The application of EIC-146 requires the recognition of the foregone tax benefit on the date the Company renounces the tax credits associated with the exploration expenditures, provided there is reasonable assurance that the expenditures will be made. The entire net proceeds from the issuance of flow-through shares were recognized in equity. Upon renunciation of the tax benefits associated with the related expenditures, a deferred tax liability was recognized and shareholders’ equity reduced.

Under IFRS, on issuance of flow-through shares, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

To the extent that the Company has deferred tax assets in the form of tax loss carry-forwards and other unused tax credits as at the end of the reporting period, the Company may use them to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares.

Where flow-through shares were issued but expenditures not incurred by the end of the reporting period, a liability is shown in 'other liabilities'.

The tax effects of renunciation however under pre-changeover Canadian GAAP were recorded as a charge to share capital and not to a deferred tax provision. Accordingly share capital and deficit have both decreased by $56,571 for all periods reported in these consolidated interim financial statements. These adjustments were non-cash accounting adjustments. There was no impact on total assets, total liabilities, total shareholders’ equity or comprehensive income arising from pre-changeover Canadian GAAP to IFRS conversion for the periods reported in the accompanying financial statements.

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17. FIRST TIME ADOPTION OF IFRS (continued)

The reconciliation between GAAP and IFRS total comprehensive loss for the nine months ended September 30, 2010 and the year ended December 31, 2010 is provided below:

Reconciliation of Comprehensive Loss

Nine months ended September 30, 2010

	GAAP	Effect of transition to IFRS	Notes	IFRS
Expenses:				
Accounting and audit	$ 33,192			$ 33,192
Administration	3,750			3,750
Depreciation	20,993			20,993
Bank charges and interest	8,342			8,342
Consulting fees	89,433			89,433
Director fees	55,792			55,792
Insurance	5,180			5,180
Interest expense	4,416			4,416
Legal	36,257			36,257
Mineral property exploration	1,912,447			1,912,447
Office and miscellaneous	89,123			89,123
Printing and shareholders' information	76,818			76,818
Rent	15,750			15,750
Stock exchange fees and filing fees	43,658			43,658
Telephone and utilities	14,028			14,028
Transfer agent fees	31,874			31,874
Travel and business development	171,152			171,152
Wages	88,916			88,916
Total expenses	3,552,341			3,552,341
Other income (expenses)				
Interest and sundry	8,587			8,587
Gain on settlement of debt	25,381			25,381
Foreign exchange loss	(192,424)			(192,424)
Total other income (expenses)	(158,456)			(158,456)
Loss and comprehensive loss for the period	$(3,710,797)			$(3,710,797)

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17. FIRST TIME ADOPTION OF IFRS (continued)

Reconciliation of Comprehensive Loss

Year ended December 31, 2010				
	GAAP	**Effect of transition to IFRS**	**Notes**	**IFRS**
Expenses:				
Accounting and audit	$ 77,834			$ 77,834
Depreciation	28,308			28,308
Administration	3,750			3,750
Bank charges and interest	6,163			6,163
Consulting fees	206,308			206,308
Director and management fees	55,792			55,792
Interest expense	4,416			4,416
Legal	97,935			97,935
Mineral property exploration	2,438,660			2,438,660
Office and miscellaneous	142,310			142,310
Printing and shareholders' information	108,139			108,139
Rent	22,750			22,750
Share-based compensation	1,214,359			1,214,359
Stock exchange fees and filing fees	51,554			51,554
Telephone and utilities	15,998			15,998
Transfer agent fees	37,692			37,692
Travel and business development	208,599			208,599
Wages	120,185			120,185
Total expenses	4,840,752			4,840,752
Other income (expenses)				
Interest and sundry	6,698			6,698
Gain on settlement of debt	56,284			56,284
Foreign exchange loss	(47,615)			(47,615)
Total other income (expenses)	15,367			15,367
Loss before income tax	(4,825,385)			(4,825,385)
Deferred tax expense	-	56,571	a)	56,571
Loss and comprehensive loss for the year	$ (4,825,385)	56,571		$ 4,768,814)

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17. FIRST TIME ADOPTION OF IFRS (continued)

The reconciliation between GAAP and IFRS statements of cash flows for the nine months ended September 30, 2010 and the year ended December 31, 2010 is provided below:

Reconciliation of Cash Flows

Nine months ended September 30, 2010	GAAP	Effect of transition to IFRS	Notes	IFRS
Cash flows from operating activities				
Loss for the period	$ (3,710,797)			$ (3,710,797)
Items not involving cash:				
Depreciation	20,993			20,993
Stock-based compensation	851,220			851,220
Unrealized foreign exchange gain	(59,528)			(59,528)
	(2,898,112)			(2,898,112)
Changes in non-cash working capital				
Receivable	(106,911)			(106,911)
Prepaid expenses and deposit	(8,898)			(8,898)
Accounts payable and accrued liabilities	87,644			87,644
Net cash used in operating activities	(2,926,277)			(2,926,277)
Cash flows from investing activities				
Acquisition of equipment	(1,178)			(1,178)
Acquisition of mineral property	(100,000)			(100,000)
	(101,178)			(101,178)
Cash flows from financing activities				
Note payable	(420,000)			(420,000)
Subscriptions receivable	129,063			129,063
Share issue costs	(338,521)			(338,521)
Issuance of capital stock	5,769,789			5,769,789
Net cash used in financing activities	5,140,331			5,140,331
Changes in cash and cash equivalents during the period	2,112,876			2,112,876
Cash and cash equivalents, beginning of period	431,879			431,879
Cash and cash equivalents, end of period	$ 2,544,755			$ 2,544,755

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17. FIRST TIME ADOPTION OF IFRS (continued)

Reconciliation of Cash Flows

Year ended December 31, 2010

	GAAP	Effect of transition to IFRS	Notes	IFRS
Cash flows from operating activities				
Loss for the year	$(4,825,385)	56,571	a)	$(4,768,814)
Items not involving cash				
Depreciation	58,371			58,371
Share-based compensation	1,214,359			1,214,359
Gain from settlement of debt	(56,284)			(56,284)
Deferred tax expenses	-	(56,571)	a)	(56,571)
	(3,608,939)			(3,608,939)
Changes in non-cash working capital				
Receivable	(37,798)			(37,798)
Prepaid expenses and other	(50,966)			(50,966)
Accounts payable and accrued liabilities	(68,842)			(68,842)
Net cash used in operating activities	(3,766,545)			(3,766,545)
Cash flows from investing activities				
Resource properties	(100,000)			(100,000)
Disposal of equipment	929			929
Net cash used in investing activities	(99,071)			(99,071)
Cash flows from financing activities				
Note payable	(520,000)			(520,000)
Proceeds from notes payable	100,000			100,000
Share subscriptions receivable	129,063			129,063
Share issuance cost	(338,521)			(338,521)
Issuance of capital stock	6,195,949			6,195,949
Net cash provided by financing activities	5,566,491			5,566,491
Changes in cash and cash equivalents during the year	1,700,875			1,700,875
Cash and cash equivalents, beginning of year	431,879			431,879
Cash and cash equivalents, end of year	$ 2,132,754			$ 2,132,754