

Consolidated Financial Statements of



(Formerly Gold Hawk Resources Inc.)

December 31, 2011

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

December 31, 2011

Table of contents

Independent Auditor's Report	1
Consolidated statements of comprehensive loss.....	2
Consolidated statements of financial position	3
Consolidated statements of changes in equity.....	4
Consolidated statements of cash flows.....	5
Notes to the consolidated financial statements.....	6-39

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Independent Auditor's Report

To the Shareholders of Oracle Mining Corp. (formerly Gold Hawk Resources Inc.)

We have audited the accompanying consolidated financial statements of Oracle Mining Corp., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Oracle Mining Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of \$16.0 million during the year ended December 31, 2011. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

(Signed) Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 28, 2012

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Consolidated statements of comprehensive loss years ended December 31, 2011 and 2010

(In thousands of US dollars, except share amounts)

	2011	2010
	\$	\$
		(Note 21)
Operating costs		
General and administration expenses (Note 13)	(5,690)	(4,632)
Exploration and evaluation expenditures (Note 14)	(10,127)	(633)
Loss from operations	(15,817)	(5,265)
Other expenses (income)		
Foreign exchange (gain) loss	(140)	570
Financing charges	230	-
Interest income	(82)	29
Gain on sale of marketable securities (Note 3)	(32)	(2,918)
Unrealized gain on marketable securities (Note 3)	(108)	-
Gain on sale of available-for-sale investment	-	(1,778)
Bad debt expense (Note 4)	347	-
Other	8	16
Net loss	(16,040)	(1,184)
Other comprehensive (loss) income		
Exchange differences on translating foreign operations	(231)	1,100
	(231)	1,100
Total comprehensive loss	(16,271)	(84)
Loss per share		
Basic and diluted	(0.51)	(0.07)
Weighted average number of shares outstanding		
Basic and diluted	31,375,296	16,901,358

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Consolidated statements of financial position

(In thousands of US dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
		(Note 21)	(Note 21)
Assets			
Current assets			
Cash and cash equivalents	7,942	25,406	12,885
Marketable securities (Note 3)	411	-	1,783
Available-for-sale investment (Note 21)	-	-	2,647
Prepaid expenses and other receivables (Note 4)	770	207	55
	9,123	25,613	17,370
Non-current assets			
Plant and equipment (Note 5)	725	138	26
Mineral properties (Note 6)	21,024	20,747	-
	30,872	46,498	17,396
Liabilities			
Current liabilities			
Trade and other payables	1,365	1,431	500
Other current liabilities (Note 7)	-	558	-
Current portion of promissory notes payable (Note 8)	1,758	1,000	-
	3,123	2,989	500
Non-current liabilities			
Promissory notes payable (Note 8)	1,107	2,154	-
Reclamation provision (Note 9)	185	-	-
Other long-term liabilities	295	481	-
	4,710	5,624	500
Equity			
Issued capital (Note 12(b))	69,619	69,250	46,312
Warrant reserve (Note 12(e))	1,924	1,929	2,061
Share-based payment reserve	5,878	4,683	3,427
Foreign currency translation reserve	869	1,100	-
Deficit	(52,128)	(36,088)	(34,904)
	26,162	40,874	16,896
	30,872	46,498	17,396

Approved and authorized for issue by the Directors on March 28, 2012

Paul Eagland, Director

Derek Price, Director

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Consolidated statements of changes in equity

(in thousands of US dollars)

	Issued capital		Reserves				Deficit	Total
	Shares	Amount	Warrant reserve	Share-based payment reserve	Investment reserve	Foreign currency translation reserve		
		\$	\$	\$	\$	\$	\$	\$
At January 1, 2010 (Note 21)	13,016,970	46,312	2,061	3,427	-	-	(34,904)	16,896
Issued on acquisition (Note 6(i))	11,200,000	14,454	-	-	-	-	-	14,454
Increase in value of available for sale investment (Note 21)	-	-	-	-	1,778	-	-	1,778
Sale of available for sale investment (Note 21)	-	-	-	-	(1,778)	-	-	(1,778)
Issued on the exercise of warrants (Note 12 (e))	850,200	1,182	(132)	-	-	-	-	1,050
Issued on the exercise of options (Note 12 (c))	195,000	345	-	(152)	-	-	-	193
Issued for private placement, net of issuance costs of \$526 (Note 12 (b))	6,000,000	6,957	-	-	-	-	-	6,957
Warrants re-issued (Note 12(e))	-	-	145	-	-	-	-	145
Capital charge on re-issue of warrants (Note 12(e))	-	-	(145)	-	-	-	-	(145)
Share-based payment expense	-	-	-	1,408	-	-	-	1,408
Total comprehensive loss	-	-	-	-	-	1,100	(1,184)	(84)
At December 31, 2010	31,262,170	69,250	1,929	4,683	-	1,100	(36,088)	40,874
Issued on exercise of warrants (Note 12 (e))	61,900	115	(5)	-	-	-	-	110
Issued on exercise of options (Note 12 (c))	110,000	254	-	(112)	-	-	-	142
Share-based payment expense	-	-	-	1,307	-	-	-	1,307
Total comprehensive loss	-	-	-	-	-	(231)	(16,040)	(16,271)
At December 31, 2011	31,434,070	69,619	1,924	5,878	-	869	(52,128)	26,162

Oracle Mining Corp

(Formerly Gold Hawk Resources Inc.)

Consolidated statements of cash flows years ended December 31, 2011 and 2010

(in thousands of US dollars)

	2011	2010
	\$	\$
Operating activities		
Net loss	(16,040)	(1,184)
Items not affecting cash		
Gain on sale of available-for-sale investment	-	(1,778)
Realized gain on marketable securities (Note 3)	(32)	(2,918)
Unrealized gain on marketable securities (Note 3)	(108)	-
Share-based payment expense (Note 12 (d))	1,307	1,408
Foreign exchange loss	34	591
Depreciation	95	17
Loss on sale of equipment	7	16
Interest and accretion on promissory note	230	91
	(14,507)	(3,757)
Net changes in non-cash components of working capital (Note 18)	(884)	(103)
	(15,391)	(3,860)
Financing activities		
Private placement, net of share issue costs	-	6,957
Exercise of options and warrants	252	1,243
Repayment of promissory note (Note 8)	(1,000)	(1,000)
	(748)	7,200
Investing activities		
Proceeds from sale of marketable securities (Note 3)	514	7,201
Purchase of marketable securities (Note 3)	(784)	(2,298)
Proceeds from sale of available-for-sale investment	-	4,425
Mineral property acquisition	(93)	-
Property acquisition costs, net of cash acquired	-	(308)
Additions to plant and equipment (Note 5)	(691)	(145)
	(1,054)	8,875
Effect of exchange rate changes on cash and cash equivalents	(271)	336
Net change in cash and cash equivalents	(17,464)	12,551
Cash and cash equivalents, beginning of year	25,406	12,855
Cash and cash equivalents, end of year	7,942	25,406
Cash and cash equivalents consist of:		
Cash	847	22,505
U.S. money market funds and guaranteed investment certificates	7,095	2,901
	7,942	25,406

Supplemental cash flow information (Note 18)

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

1. Nature and continuance of operations

Oracle Mining Corp. (the "Company" or "Oracle Mining"), formerly Gold Hawk Resources Inc., received final approval to graduate to the TSX under the symbol "OMN" on January 12, 2012. It was previously listed on the TSX Venture Exchange under the symbol "OMN", and is a company incorporated under the Canada Business Corporations Act and a reporting issuer under the jurisdiction of British Columbia. The Company is engaged in the acquisition, exploration, development and exploitation of mineral resource projects.

The Company's head office, principal address and registered office is #1550-666 Burrard Street, Vancouver, British Columbia, V6C 3E1.

In September 2010, the Company acquired the Oracle Ridge copper property near Tucson, Arizona. The Company has started exploration and development activities on this property and expects to bring the property into production in 2013. In accordance with the Company's accounting policy (Note 2(h)), all exploration and evaluation expenditures are expensed until such time as a technical feasibility study has been completed and commercial viability is demonstrable.

These consolidated financial statements are prepared on the basis of a going concern which assumes the realization of assets and satisfaction of liabilities in the normal course of business. During the year-ended December 31, 2011, the Company incurred a net loss for the year of \$16,040,000. The continuation of the Company as a going concern is dependent on its ability to obtain necessary financing as required, to complete exploration and development activities on the Oracle Ridge copper property and ultimately the achievement of profitable operations. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

Subsequent to year end, the Company completed a private placement for 7,800,000 common shares of the Company at a subscription price of C\$1.25 per share raising gross proceeds of \$9,750,000.

2. Summary of significant accounting policies

(a) *Basis of preparation and first time adoption of International Financial Reporting Standards ("IFRS")*

These consolidated financial statements represent the Company's first IFRS annual consolidated financial statements and have been prepared in accordance with IFRS. The Company adopted IFRS in accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards ("IFRS 1") with a transition date of January 1, 2010 and these consolidated financial statements have been prepared in accordance with IFRS standards and interpretations effective as of December 31, 2011, with significant accounting policies as described in this note.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(a) *Basis of preparation and first time adoption of International Financial Reporting Standards (continued)*

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The basis of preparation of these consolidated financial statements is different to that of the Company's prior year consolidated financial statements prepared in accordance with Canadian GAAP due to the Company's transition to IFRS. The disclosures required by IFRS 1 demonstrating the impact of the transition to IFRS with a transition date of January 1, 2010 on the financial position and financial performance of the Company are provided in Note 21. Note 21 includes reconciliations of the Company's consolidated statements of financial position and statements of comprehensive income (loss) as at the date of transition and for the 2010 comparative periods prepared in accordance with Canadian GAAP and as previously reported or revised, to those prepared and reported in these consolidated financial statements in accordance with IFRS.

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

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

The Board of Directors approved these consolidated financial statements for issue on March 28, 2012.

(b) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company's principal subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Ownership interest</u>
0830438 BC Ltd.	Canada	100%
Oracle Ridge Mining LLC	USA	100%

All intra-company transactions, balances, income and expenses are eliminated on consolidation.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(c) *Foreign currencies*

The consolidated financial statements are presented in United States ("US") dollars. Prior to January 1, 2011, the Company's presentation currency was the Canadian dollar. The functional currency of Oracle Mining is the Canadian dollar. The functional currency of Oracle Ridge Mining LLC and 0830438 BC Ltd. is the US dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effect of Changes in Foreign Exchange Rates*.

These consolidated financial statements have been translated to the US dollar in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. This standard requires that assets and liabilities be translated using the exchange rate at period end, and income and expenses be translated using the exchange rates at the dates of the transactions (where there is not significant fluctuation in the exchange rates used, the average rate for the period is applied to income and expense balances). The exchange differences are recognized as a component of other comprehensive income in the statement of comprehensive loss.

Transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(d) *Financial instruments*

Financial assets and liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets and liabilities are measured at fair value plus transaction costs, except for those financial assets and liabilities classified as fair value through profit or loss, which are initially measured at fair value.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

- Fair value through profit or loss ("FVTPL") - This category comprises derivatives, assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or assets designated upon initial recognition as FVTPL. These financial assets are carried in the statement of financial position at fair value with changes in fair value recognized as a component of net loss in the statement of comprehensive loss.
- Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest rate method less any impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The carrying amount of trade receivables is reduced through an allowance account. Amounts deemed to be uncollectable are written off against the allowance account and subsequent recoveries are credited against the allowance account. Changes in the allowance account are recognized as a component of net loss in the statement of comprehensive loss.
- Held-to-maturity investments - 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 cost using the effective interest method. If there is objective evidence that the investment 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 discounted at the entity's original effective interest rate. Any changes to the carrying amount of the investment, including impairment losses, are recognized as a component of net loss in the statement of comprehensive loss.
- Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity and as a component of other comprehensive income in the statement of comprehensive loss. Where a prolonged or significant 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 statement of comprehensive loss.

All financial assets, except for those recorded at FVTPL, are subject to review for impairment at least at each reporting date. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was assumed. The Company's accounting policy for each category is as follows:

- FVTPL - This category comprises derivatives, liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term or liabilities designated upon initial recognition as FVTPL. These financial liabilities are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive (loss) income
- Other financial liabilities - Other financial liabilities are subsequently measured at amortized cost, using the effective interest rate method.

(iii) Classification of financial instruments

The Company's financial instruments consist of the following:

<u>Instrument</u>	<u>Classification</u>	<u>Measurement basis</u>
Cash and cash equivalents	FVTPL	Fair value
Marketable securities	FVTPL	Fair value
Investment in Compañía Minera San Juan ("CMSJ")	Available-for-sale	Fair value
Other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Other current liabilities	Other liabilities	Amortized cost
Promissory notes payable	Other liabilities	Amortized cost
Other long-term liabilities	Other liabilities	Amortized cost

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(d) *Financial instruments (continued)*

IFRS 7 establishes a fair value hierarchy that reflects significance of inputs in measuring fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and cash equivalents and marketable securities are designated as Level 1 and the Company's investment in CMSJ as Level 2.

There were no transfers between Level 1 and Level 2 during the year.

The fair values of cash and cash equivalents, trade and other payables, and other current liabilities approximate their carrying values due to the short-term maturities of these financial instruments.

(e) *Cash and cash equivalents*

The Company considers cash to be cash on deposit and cash equivalents to be highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

(f) *Plant and equipment*

Plant and equipment are recorded at cost less accumulated depreciation and impairment losses, if any, and are depreciated using the straight-line method over the following periods:

Mobile equipment	5 years
Furniture and fixtures	5 years
Computer equipment and software	4 years
Machinery and equipment	5 years
Leasehold improvements	Term of lease

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(f) *Plant and equipment (continued)*

Depreciation of mobile equipment as well as machinery and equipment used directly in exploration or development projects are included in exploration and evaluation costs. Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment and depreciated over their useful life.

Borrowing costs directly associated with the construction or acquisition of qualifying assets are capitalized at interest rates relating to borrowings specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of group borrowings is utilized. Capitalization of borrowing costs ceases when the asset is substantially complete.

All other borrowing costs are expenses when incurred.

The depreciation method, useful life and residual values are assessed annually.

(g) *Impairment of non-financial assets*

Non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether an impairment exists. Where the asset does not generate cash inflows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Goodwill, any intangible asset with an indefinite useful life, or any intangible asset not yet available for use is tested for impairment annually and whenever there is an indication that the asset may be impaired.

An asset or cash-generating units recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in profit or loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. Impairment of goodwill cannot be reversed.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(h) Mineral properties

The cost of a property acquired as an individual asset purchase or as part of a business combination represents the property's fair value at the date of acquisition. This cost is capitalized until the viability of the mining property is determined. When it is determined that a property is not economically viable, the amount capitalized is written off which includes expenditures which were capitalized to the carrying amount of the property subsequent to its acquisition.

The Company expenses all costs relating to the exploration for and evaluation of mineral claims until such time as a technical feasibility study has been completed and commercial viability of extracting the mineral resources is demonstrable. Such costs include, but are not limited to, geological, geophysical studies, exploratory drilling and sampling. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation expenses attributable to that area of interest will be capitalized to mineral properties. Costs will continue to be capitalized until the property to which they relate is ready for its intended use, sold, abandoned or management has determined there is impairment. If economically recoverable reserves are developed, capitalized costs of the property are depleted using the units of production method.

(i) Income taxes

Income tax 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, in which case income tax is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the balance sheet 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. The following temporary differences are not provided for: initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that affects neither accounting or taxable loss and is not a business combination; and 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 substantively enacted at the date of the statement of financial position.

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, the deferred tax asset is reduced using a valuation allowance.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(j) *Share-based payment transactions*

The share option plan allows the Company's employees and consultants to acquire shares of the Company. Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of options granted to employees is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured for each tranche at grant date and is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted and management's estimate of forfeitures. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

(k) *Restoration, rehabilitation, and environmental obligations*

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset and the environment in which the mine operates.

Pre-tax discount rates that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(l) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(m) Leases

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recognized at the lower of the fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(n) Loss per share

The Company presents the basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding for the year, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period. During years ended December 31, 2011 and 2010 all outstanding stock options and warrants were anti-dilutive.

(o) Significant accounting judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (Note 2 (p)), that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are related to the economic recoverability of the mineral properties, the determination of functional currency for the Company and its subsidiaries, the determination that the acquisition of the Oracle Ridge project represents an acquisition of an asset rather than a business combination and the assumption that the Company will continue as a going concern.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(p) Significant accounting estimates

The preparation of these consolidated financial statements requires management to make estimates 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 reporting period. Actual outcomes could differ from these estimates. The 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 the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position 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:

- the recoverability of amounts receivable and prepayments which are included in the statement of financial position;
- impairment of non-financial assets;
- the estimated fair value of marketable securities;
- the estimated useful lives of property, plant and equipment which are included in the consolidated statement of financial position and the related depreciation included in the statement of comprehensive (loss) income; and
- the inputs used in accounting for share-based compensation expense in the statement of comprehensive (loss) income.

(q) New accounting standards and interpretations

Accounting Standards issued but not yet effective:

The Company has not early adopted the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

In October 2010, the IASB issued amendments to IFRS 7 - *Financial Instruments: Disclosures* that enhance the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

The following standards are effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company is currently assessing the impact they will have on the consolidated financial statements.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

- *IFRS 10, Consolidated Financial Statements:* 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, *Consolidation – Special Purpose Entities*.
- *IFRS 11, Joint Arrangements:* IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities-Non – Monetary Contributions by Venturers*.
- *IFRS 12, Disclosure of Interests in Other Entities:* IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.
- *IFRS 13, Fair Value Measurements:* IFRS 13 defines fair value, sets out in a single IFRS framework for measuring value and requires disclosures about fair value measurements. The 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), except in specified circumstances.
- *IAS 27, Separate Financial Statements:* IAS 27 has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with *IFRS 9 Financial Instruments*. The new IAS 27 excludes the guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent, which is within the scope of the current IAS 27 *Consolidated and Separate Financial Statements*, and is replaced by IFRS 10.
- *IAS 28, Investments in Associates and Joint Ventures:* IAS 28 has been updated and it is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The scope of the current IAS 28 *Investments in Associates* does not include joint ventures. Early application is permitted.
- *IFRIC 20 – Stripping Costs in the Production Phase of a Mine:* In October 2011, the IASB issued IFRIC 20 which clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods. The interpretation is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

2. Summary of significant accounting policies (continued)

(q) *New accounting standards and interpretations (continued)*

IFRS 9, Financial Instruments: IFRS 9 introduces the new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value, and all financial liabilities classified as subsequently measured at amortized cost except for financial liabilities as at FVTPL. The amendments are effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IAS 1 – Presentation of Financial Statements: In June 2011, the IAS issued amendments to IAS 1 that requires an entity to group items presented in the statement of comprehensive income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoptions permitted. The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32). On December 16, 2011 the IASB published amendments to IAS 32 Financial Instruments: Presentation to clarify the application of the offsetting requirements. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). On December 16, 2011 the IASB published new disclosure requirements jointly with the FAS that enables users of financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP. The new requirements are effective for annual periods beginning on or after January 1, 2013.

3. Marketable securities

As at December 31, 2011, the Company holds the following marketable securities:

	December 31, 2011	December 31, 2010	January 1, 2010
	Cost	Fair value	Fair value
	\$	\$	\$
Fair value through profit or loss			
Canada Zinc Metals Corp.	303	411	-
Trelawney Mining and Exploration ("Trelawney")	-	-	1,783
	303	411	1,783

During the year, the Company purchased 98,800 shares of Nevada Copper Corp. for a cost of \$481,000 and sold the shares for gross proceeds of \$514,000, resulting in a realized gain of \$32,000.

In the prior year, the Company sold the shares of Trelawney for proceeds of \$4,662,000, resulting in a realized gain of \$2,918,000.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

4. Prepaid expenses and other receivables

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Prepaid expenses	125	43	10
Government tax (HST)	80	83	14
Deposits and advances	565	81	31
Total	770	207	55

During the year, the Company advanced funds of \$347,000 to a drilling contractor. At December 31, 2011, the Company determined that the advance would not be recovered and has written the amount off as a bad debt expense.

5. Plant and equipment

	Oracle Ridge equipment	Corporate office and other equipment	Total
	\$	\$	\$
<i>Cost</i>			
January 1, 2010	-	66	66
Additions	68	74	142
Disposals	-	(72)	(72)
Foreign exchange movement	-	4	4
December 31, 2010	68	72	140
Additions	594	97	691
Disposals	-	(9)	(9)
Foreign exchange movement	-	(2)	(2)
December 31, 2011	662	158	820
	Oracle Ridge equipment	Corporate office and other equipment	Total
	\$	\$	\$
<i>Accumulated depreciation</i>			
January 1, 2010	-	40	40
Additions	1	15	16
Disposals	-	(55)	(55)
Foreign exchange movement	-	1	1
December 31, 2010	1	1	2
Additions	59	36	95
Disposals	-	(1)	(1)
Foreign exchange movement	-	(1)	(1)
December 31, 2011	60	35	95
	Oracle Ridge equipment	Corporate office and other equipment	Total
	\$	\$	\$
<i>Carrying amounts</i>			
At January 1, 2010	-	26	26
At December 31, 2010	67	71	138
At December 31, 2011	602	123	725

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

6. Mineral properties

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Oracle Ridge copper project ⁽ⁱ⁾	20,999	20,747	-
Copper Moon property ⁽ⁱⁱ⁾	25	-	-
Total	21,024	20,747	-

(i) *Oracle Ridge copper project*

On September 28, 2010, the Company completed the acquisition of the Oracle Ridge copper property through the purchase of all the outstanding common shares of 0830438 BC Ltd. and its wholly-owned subsidiary, Oracle Ridge Mining LLC. The transaction has been accounted for as an asset acquisition by the Company.

The aggregate purchase consideration consisted of 11,200,000 common shares of the Company, which have been valued at \$1.29 (C\$1.33) per share, the share price of the Company on the closing date of the transaction, for total consideration of \$14,454,000.

The purchase consideration has been allocated to the assets acquired and liabilities assumed as follows:

	\$
Shares issued upon acquisition	14,454
Transaction costs	322
Purchase consideration	14,776
Cash and cash equivalents	14
Prepays	8
Mineral properties	20,747
Trade and other payables	(890)
Other current liabilities	(541)
Promissory notes payable	(4,090)
Other long term liability	(472)
	14,776

The Oracle Ridge property is located 24 km northeast of Tucson, Arizona. The Company has secured the surface rights by way of lease and by purchase of an adjacent property necessary to bring the property into production.

On August 1, 2011, the Company entered into an operating lease agreement for additional land adjacent to the Oracle Ridge property. The lease is for a term of 15 years and requires annual payments of \$19,200, with two additional five year renewal terms. The Company paid an initial non-refundable payment of \$57,600 upon execution of the lease.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

6. Mineral Properties (continued)

(ii) Copper Moon property

On June 29, 2011, the Company entered into an option agreement to acquire a 100% interest in a mineral property in Colorado, USA. Under the terms of the agreement, the Company made a cash payment of \$25,000 on signing of the agreement and is required to make the following payments to keep the option in good standing: a cash payment of \$20,000 on or before June 29, 2012, a cash payment of \$20,000 on or before June 29, 2013, and a cash payment of \$500,000 on or before June 29, 2014.

7. Other current liabilities

As part of acquisition of Oracle Ridge (Note 6), the Company assumed current liabilities of \$541,000 for the purchase of land adjacent to the Oracle Ridge property. The terms of the liability had an interest rate of 7% per annum, payable in two installments, January 30, 2011 and July 30, 2011. In January 2011, the Company settled the total liability outstanding on the property for \$558,000 (inclusive of interest).

8. Promissory notes payable

As part of the acquisition of Oracle Ridge (Note 6), the Company assumed promissory notes payable of \$3,800,000 that were secured by the Oracle Ridge copper property.

As at December 31, 2011, the amount outstanding is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Promissory notes payable, including accrued interest	2,865	3,154	-
Less: Current portion	(1,758)	(1,000)	-
Promissory notes payable, non-current	1,107	2,154	-

The schedule of principal payment amounts and maturity dates of the notes as at December 31, 2011 are as follows:

Principal	Maturity date
\$500,000	April 27, 2012 ¹
\$806,500	October 21, 2012 ¹
\$1,000,000	October 21, 2013 ²

¹ The notes bear interest until repaid at 8% per annum and interest is not payable until October 21, 2012.

² The note bears interest at 8% per annum and the interest is payable when the note comes due on October 21, 2013.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

8. Promissory notes payable (continued)

As part of the acquisition of Oracle Ridge (Note 6), the Company assumed an obligation to construct a roadway on the property and committed to spend a minimum of \$500,000 in the realization of this project. If the Company was unable to complete construction of the road by June 2011, the Company was still liable for the \$500,000 and this amount would be added to the principal of the Company's 2013 promissory note payable and become due in October 2013. As the Company did not construct the road by June 2011, the principal of \$500,000 has been added to Company's 2013 promissory note payable above.

9. Reclamation provision

Reclamation provision represents the estimated costs required to provide adequate restoration and rehabilitation upon completion of mining activities at Oracle Ridge. The Company measures the reclamation costs at fair value, which is based on the net present value of future cash expenditures upon reclamation and closure. Reclamation costs are capitalized to mineral properties and will be amortized over the life of mine once the mine commences commercial production.

The provision of \$185,000, established at December 31, 2011 for reclamation cost obligations, has been adjusted to reflect risk. The estimate has been discounted at its present value at a rate of approximately 2.89% per annum being an estimate of the long-term, risk-free, pre-tax cost of borrowing. The undiscounted balance of the reclamation provision is \$328,000.

10. Capital risk management

The Company's objectives in managing its liquidity and capital resources are to safeguard the Company's ability to continue as a going concern and to provide financial capacity to meet its strategic objectives. The capital structure of the Company consists of promissory notes payable, other long-term liabilities, and equity, comprised of issued capital, warrant-reserve, share-based payment reserve, foreign currency translation reserve and deficit.

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

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. The Company does not pay out dividends.

The Company expects its current capital resources will be sufficient to fund operations for the next 12 months or until it commences development and construction activities. Once development and construction commence, significant additional funding will be required.

The Company's capital at December 31, 2011 is as follows:

	\$
Promissory notes payable	2,865
Other long-term liabilities	295
Equity	26,162
	<u>29,322</u>

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

11. Financial risk and risk management

The Company's financial instruments consist of cash and cash equivalents, other receivables, marketable securities, investment in the Company's former Peruvian subsidiary Compania Minera San Juan ("CMSJ"), trade and other payables, promissory notes payable and other liabilities. The Company has exposures to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors is responsible for the establishment and oversight of the Company's risk management policies and reviews the policies on an ongoing basis.

(a) *Interest rate risk*

The Company is exposed to interest rate risk with respect to the interest it earns on its cash and cash equivalents balances.

The Company does not enter into derivative contracts to manage the risk associated with interest rate movements.

(b) *Foreign currency risk*

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and has acquired a 100% interest in the Oracle Ridge copper property in the US. A significant change in the currency exchange rates between the Canadian dollars relative to the US dollar could have an effect on the Company's financial performance, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2011, the Company holds the following financial instruments denominated in Canadian dollars or US dollars:

	US\$	C\$
Cash and cash equivalents	535	7,532
Marketable securities	-	418
Other receivable	213	436
Trade and other payables	(991)	(382)
Promissory notes payable	(2,865)	-
Other long-term liabilities	-	(300)
	<u>(3,108)</u>	<u>7,704</u>

At December 31, 2011, with other variables unchanged, a 10% change in the US dollar/Canadian dollar exchange rate would impact pre-tax loss by \$1.6 million for the year ended December 31, 2011.

(c) *Credit risk*

The Company's credit risk is mainly attributable to its liquid financial assets: cash and cash equivalents, marketable securities, investment in CMSJ and other receivables. The Company deposits cash with high credit quality financial institutions and credit risk is considered to be minimal. The Companies maximum exposure to credit risk is \$8,998,000.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

11. Financial risk and risk management (continued)

(d) Liquidity risk

The Company manages liquidity risk through an annual budget and ongoing monitoring of expenses and capital expenditures to ensure it has sufficient liquidity to meet its business requirements as they come due. As of December 31, 2011, the Company had working capital of \$6,000,000 (December 31, 2010 - \$22,624,000, January 1, 2010 - \$16,870,000).

As at December 31, 2011, the Company's liabilities and commitments have contractual maturities of:

	Payments due by period			
	Total	Less than 1 year	1-5 years	More than 5 years
	\$	\$	\$	\$
Trade and other payables	1,365	1,365	-	-
Promissory notes payable, including interest	2,865	1,758	1,107	-
Reclamation provision	328	-	-	328
Other liabilities	295	-	295	-
Lease commitments	546	272	159	115
	5,399	3,395	1,561	443

Although the Company does not have operating profits, the Company believes it has sufficient cash on hand to meet operating requirements for at least the next twelve months. However, once development and construction commence, significant additional funding will be required to complete the development of Oracle Ridge.

12. Issued capital

(a) Authorized

The Company's authorized share capital consists of an unlimited number of common shares with no par value.

(b) Issued

During the year ended December 31, 2011, the Company issued 171,900 shares upon the exercise of stock options and warrants for gross proceeds of C\$243,000.

On September 28, 2010, the Company issued 11,200,000 shares in consideration for the acquisition of the Oracle Ridge copper property through the share purchase of 0830438 BC LTD ("Oracle Ridge") which have been valued at \$1.29 (C\$1.33) per share, the share price of the Company on the closing date of the transaction (Note 6).

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

12. Issued capital (continued)

(b) Issued (continued)

On October 20, 2010, the Company announced that warrant holders of 878,200 common share purchase warrants with an exercise price of C\$1.25 were subject to a 30-day forced exercise provision as the Company's closing share price met or exceeded C\$1.50 for the 10 consecutive trading days. A total of 850,200 warrants were exercised as of the November 19, 2010 deadline, accordingly, the Company issued 850,200 shares at C\$1.25 per share for total proceeds of C\$1,063,000 (US\$1,049,000).

On November 8, 2010, the Company closed a non-brokered private placement for 6,000,000 common shares at a subscription price of C\$1.25 per common share for aggregate gross proceeds of C\$7,500,000 (\$7,400,000). The Company paid a finder's fee to an arm's length party in the aggregate amount of C\$450,000 (\$444,000) and incurred C\$83,000 (\$82,000) in other issuance costs.

(c) Share option plan

Pursuant to the terms of the Company's share option plan the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Options may be exercisable over periods of up to five years as determined by the Board of Directors of the Company and the exercise price is the last closing price of the shares preceding the awarding date. Stock options granted to employees, officers and consultants vest one-third immediately, one-third after 12 months from the date of grant and one-third after 24 months from the date of grant, while stock options granted to directors vest immediately. Stock options granted to investor relations consultants vest and are exercisable for a period of two years quarterly from the date of grant, with 25% of the options vesting each quarter.

A summary of the Company's share options outstanding as at December 31, 2011 and the changes for the year then ended are as follows:

	Directors and officers	Employees and consultants	Total number of options	Weighted average exercise price per share
				C\$
Balance, January 1, 2010	462,200	54,200	516,400	5.47
Granted	1,505,000	425,000	1,930,000	1.43
Exercised	(195,000)	-	(195,000)	1.00
Forfeited	-	(6,067)	(6,067)	2.50
Expired	(193,200)	(20,133)	(213,333)	5.54
Balance, December 31, 2010	1,579,000	453,000	2,032,000	2.06
Granted	600,000	1,075,000	1,675,000	1.50
Exercised	(110,000)	-	(110,000)	1.23
Forfeited	(830,000)	(35,000)	(865,000)	2.01
Expired	(53,000)	-	(53,000)	9.55
Balance, December 31, 2011	1,186,000	1,493,000	2,679,000	1.61

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

12. Issued capital (continued)

(c) Share option plan (continued)

The following table summarizes information about options outstanding and exercisable, granted to officers, directors, employees and consultants of the Company as at December 31, 2011:

Number of stock options outstanding	Number of stock options exercisable	Option exercise price C\$	Expiry date
8,000	8,000	17.25	June 2012
20,000	20,000	12.25	February 2013
38,000	38,000	1.63	August 2013
48,000	48,000	2.50	April 2014
280,000	233,334	1.00	February 2015
100,000	100,000	1.22	August 2015
560,000	450,000	1.60	October 2015
100,000	66,667	1.82	November 2015
150,000	100,000	2.09	December 2015
25,000	8,333	2.15	January 2016
450,000	250,000	1.90	March 2016
300,000	100,000	1.30	June 2016
150,000	150,000	0.99	October 2016
250,000	-	1.07	October 2016
200,000	66,667	1.15	November 2016
2,679,000	1,639,001		
1.61	1.72	Weighted average exercise price	

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

12. Issued capital (continued)

(d) Share-based payments

During the year ended December 31, 2011, the Company granted 1,425,000 (2010 – 1,930,000) share options to directors, officers, employees and a further 250,000 options to consultants. An amount of \$1,307,000 (2010 - \$1,408,000) was recorded in share-based payment reserve in recognition of share-based compensation, based on the vesting schedule for the options granted.

The fair value of each option granted during the year to employees and directors is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	Year ended December 31,	
	2011	2010
Number of options granted	1,425,000	1,930,000
Weighted average		
Risk-free interest rate (%)	1.66	1.65
Expected life (years)	2.79	3.18
Expected volatility (%)	85	127
Expected dividend (%)	-	-
Forfeiture rate (%)	10.80	14.63
Weighted average fair value (per option)	0.84	1.04

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

The expected volatility assumption is based on the historical and implied volatility of comparative companies to Oracle Mining due to the limited period that the Company has operated in its present form. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds. The fair value of each option granted during the year to consultants is estimated using the equivalent market price of the consultants services. The service fair value is recognized over the contract period.

Subsequent to year-end, the Company granted 1,390,000 share options to officers and employees with a weighted average exercise price of C\$1.23.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

12. Issued capital (continued)

(e) Share purchase warrants

A summary of the Company's share purchase warrants outstanding as at December 31, 2011 and the changes for the year then ended are as follows:

	Number of warrants	Average price of warrants C\$
Balance, January 1, 2010	3,802,000	1.39
Expired	(2,028,000)	1.25
Exercised	(850,200)	1.25
Balance, December 31, 2010	923,800	2.40
Expired	(861,900)	2.45
Exercised	(61,900)	1.75
Balance, December 31, 2011	-	-

On May 19, 2010 the Company announced an amendment to the 1,002,000 share purchase warrants issued further to the private placement that closed on June 3, 2009. The amendment, extended the exercise term from June 3, 2010 to June 3, 2011, and changed the exercise price from C\$1.75 to C\$1.25. The estimated incremental fair value of these amended warrants was determined using the Black-Scholes model with the following assumptions: a risk free interest of 1.76%, an expected volatility of 85.48%, an expected dividend yield of \$Nil and an expected life of 0.5 years. This incremental fair value in the amount of \$145,000 was recorded as a capital charge in the statement of changes in equity. Warrant pricing models require the input of subjective assumptions including the expected price volatility. Changes in the 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 warrants.

On October 20, 2010, the Company announced that warrant holders of 878,200 common share purchase warrants with an exercise price of C\$1.25 were subject to a 30-day forced exercise provision as the Company's closing share price met or exceeded C\$1.50 for the 10 consecutive trading days. A total of 850,200 warrants were exercised as of the November 19, 2010 deadline, accordingly, the Company issued 850,200 shares at C\$1.25 per share for total proceeds of C\$1,063,000 (US\$1,049,000).

On May 8, 2011, 800,000 common share purchase warrants with an exercise price of C\$2.50 expired unexercised.

On June 3, 2011, 61,900 share purchase warrants were exercised for proceeds of C\$108,000 and 61,900 share purchase warrants expired unexercised.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

13. General and administration expenses

	Year ended December 31,	
	2011	2010
	\$	\$
Salaries and benefits	1,704	1,837
Professional and consulting fees	1,294	771
Share-based payments	1,230	1,408
Office expenses	367	192
Investor relations	347	-
Travel	330	285
Filing costs and shareholders' information	293	77
Insurance	60	45
Depreciation	36	15
Other	29	2
	5,690	4,632

14. Exploration and evaluation expenditures

	Year ended December 31,	
	2011	2010
	\$	\$
Design and technical studies	1,196	70
Permitting costs	2,870	134
Site and safety services	1,216	101
Drilling	3,151	26
Site and advisory costs	1,456	302
Underground exploration and development	238	-
	10,127	633

Site and advisory costs includes \$77,000 of share-based compensation and depreciation of \$59,000.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

15. Income taxes

The provision for income taxes differs from the amounts computed by applying cumulative federal and provincial income tax rates to the loss before tax provision due to the following:

	Years ended December 31,	
	2011	2010
	\$	\$
Consolidated net loss	(16,040)	(1,184)
Canadian statutory tax rate	26.5%	28.5%
Income tax expense at statutory rate	(4,251)	(338)
Lower effective tax rate on loss in foreign jurisdiction	(1,333)	(494)
Current year tax losses not recognized	5,858	674
Non-deductible stock option compensation	308	351
Foreign exchange (loss) gain	104	39
Other permanent differences and non-deductible expenses	(686)	(232)
Balance at end of year	-	-

As at December 31, 2011, the Company had deductible temporary differences for which deferred tax assets have not been recognized because it is not probable that the future profit will be available against which the Company can utilize the benefits. Deferred tax assets have not been recognized on the following items:

	2011	2010
	\$	\$
Mining assets, deferred development and capital assets	7,192	3,370
Non-capital loss carryforwards and other future tax deductions	2,949	989
	10,141	4,359

As at December 31, 2011, the Company had a taxable temporary difference relating to investments in subsidiaries of \$18,286,000 that has not been recognized because the Company controls whether the liability will be incurred and its satisfied that it will not be incurred in the foreseeable future.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

15. Income taxes (continued)

As of December 31, 2011, the Company has non-capital loss carry forwards in Canada amounting to approximately \$18,205,000 (2010 - \$11,937,000) and US loss carryforwards of approximately \$6,144,000 available to reduce future years income for tax purposes. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in relevant jurisdictions. The tax loss carryforwards expire as follows:

	\$
2014	252
2015	252
2026	1,027
2027	1,832
2028	3,247
2029	3,093
2030	9,341
2031	5,304
	<u>24,348</u>

16. Related party transactions

- (a) During the year ended December 31, 2011, the Company paid \$550,000 (2010 - \$125,000) in advisory fees, respectively, to directors of the Company.

These transactions were incurred in the normal course of business and are measured at the fair value of the services provided.

- (b) *Compensation of key management personnel*

The remuneration of directors and other members of key management personnel during the year ended December 31, 2011 were as follows:

	Year ended December 31	
	2011	2010
	\$	\$
Salaries and directors' fees ¹	1,356	1,007
Share-based payment ²	683	909
Total	<u>2,039</u>	<u>1,916</u>

¹ Salaries and directors' fees include consulting and management fees disclosed in Note 16(a).

² Share-based payments are the fair value of options that have been granted to directors and key management personnel.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

17. Contingencies and commitments

- (a) The Company is committed under the terms of two operating leases for office premises for total aggregate payments of \$316,000 expiring in 2013.
- (b) The Company is committed under the terms of a land lease for total aggregate payments of \$231,000 expiring in 2023.
- (c) As part of the share purchase agreement for Oracle Ridge (Note 6), there is a clause whereby if the seller of Oracle Ridge is required to pay US federal capital gains tax at a rate higher than 15%, the Company is required to pay additional consideration for the property in an amount to offset the cost of the additional tax up to the equivalent of a US federal capital gains tax rate of 25%, or \$471,000. US federal capital gains tax rates have been frozen at 15% through to December 31, 2012, therefore no additional taxes will be owed by the seller on the 2012 promissory notes payable (Note 8). It is uncertain as to whether federal capital gains taxes will be raised in 2013 and therefore any additional consideration in relation to the 2013 notes is not determinable at this time.

In the normal course of business, the Company is aware of certain potential claims. The outcome of these matters is not determinable at this time, although the Company does not believe these potential claims will have a material adverse effect on the Company's operations.

18. Supplemental cash flow information

Non-cash working capital items:

	Year ended December 31,	
	2011	2010
	\$	\$
Prepaid expenses and other receivables	(563)	(144)
Trade and other payables	(321)	41
Net change in non-cash working capital	(884)	(103)

Non-cash investing and financing activities consist of the following:

	Year ended December 31,	
	2011	2010
	\$	\$
Shares issued upon acquisition (Note 6)	-	14,454
Mineral property acquired (Note 6)	-	20,747
Liabilities acquired (Note 6)	-	5,993
Net change in non-cash working capital	-	41,194

There were no income taxes or interest paid or received during the year.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

19. Segmented information

The Company currently operates in one business segment, being the acquisition and development of mineral properties. The Company's sole development property, Oracle Ridge, is located in the US and the Company's head office is located in Canada.

20. Subsequent events

On February 28, 2012, the Company completed a private placement (the "Private Placement") for up to 7,800,000 common shares (the "Shares") of the Company at a subscription price of C\$1.25 per share raising gross proceeds of up to \$9,750,000. In connection with Private Placement, the Company has engaged a finder and has agreed to pay the finder a cash finder's fee equal to 6% of gross proceeds raised from the sale of Shares placed by the finder.

On March 12, 2012, the Company entered into a non-binding, indicative term sheet for project financing with Credit Suisse AG ("Credit Suisse") for a secured term loan of up to \$70 million in order to advance the Oracle Ridge Copper project. The project financing remains subject to a number of conditions, including due diligence and the receipt of internal credit committee approvals by Credit Suisse, and the negotiation and execution of definitive documentation.

21. Transition to International Financial Reporting Standards

In preparing the opening IFRS statement of financial position and comparative information for the year ended December 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

Exemptions applied

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the IFRS standards are applied retrospectively as at the transition date with all adjustments to assets and liabilities taken to retained earnings unless certain optional exemptions are applied. The Company has applied the following optional exemptions to its opening statement of financial position dated January 1, 2010:

(a) *Business combinations*

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3, *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to apply this exemption to business combinations that occurred prior to January 1, 2010.

(b) *Share-based payment transactions*

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

21. Transition to International Financial Reporting Standards

(c) *Cumulative translation differences*

As permitted by the IFRS 1 election for cumulative translation differences, the Company has deemed cumulative translation differences for foreign operations to be zero at the date of transition. Cumulative translation loss at January 1, 2010 was re-allocated from accumulated other comprehensive loss to deficit. As a result, a difference of \$3,642,000 was recorded in deficit to reduce the foreign currency translation reserve to zero.

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

(d) *Estimates*

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

(e) *Non-controlling interest*

Certain requirements of IAS 27 – Consolidated and Separate Financial Statements must be applied prospectively from January 1, 2010, the Company's transition date. Retrospective application is not permitted. These requirements relate to:

- The attribution of total comprehensive income to non-controlling interests even if this results in non-controlling interests having a deficit balance;
- The accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control as equity transactions; and
- The accounting for loss of control over a subsidiary and the related requirements of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows it has resulted in changes to the Company's reported financial position and financial performance. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of comprehensive (loss) income for the year ended December 31, 2010, and the statement of financial position on January 1, 2010 and December 31, 2010 have been reconciled to IFRS, with the resulting differences explained below:

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

21. Transition to International Financial Reporting Standards (continued)

(f) *Share-based payment*

Canadian GAAP

The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period.

The Company had previously elected under GAAP to recognize forfeitures of awards as they occur.

IFRS

Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.

Forfeitures are estimated on the date the award is granted and are revised for actual forfeitures in subsequent periods.

As a result, as at January 1, 2010 an amount of \$94,000 was recorded in deficit to adjust the share-based payment reserve for these differences.

(g) *Available-for-sale investment*

On November 12, 2009, the Company ceased to control its former Peruvian subsidiary, Compania Minera San Juan ("CMSJ") as a result of the dilution of its controlling interest by a third party. The Company's remaining interest in CMSJ at December 31, 2009 was 15%.

Canadian GAAP

Available-for-sale ("AFS") investments are recorded at cost unless the available-for-sale equity instrument is quoted in an active market. The investment in CMSJ was recorded at its cost of \$Nil at January 1, 2010.

IFRS

IFRS requires such investments (AFS equity instruments with no active market) to be measured at fair value unless fair value is not reliably measurable. The Company has concluded that fair value can be determined at January 1, 2010 for the investment in CMSJ from the sale of the 85% interest in this investment in November 2009 to a third party.

As a result, \$2,647,000 was recorded in deficit to adjust the carrying value of the Company's investment in CMSJ at the date of transition. In addition, the Company has determined that at June 30, 2010 the fair value of the investment in CMSJ was determinable based on the negotiated price for sale of the investment. The increase in fair value in the three months ended June 30, 2010 has been recorded as a credit to the investment reserve in equity.

This sale closed on July 7, 2010 and the gain on the sale of the Company's investment in CMSJ was also adjusted to reflect the IFRS carrying value.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

21. Transition to International Financial Reporting Standards (continued)

(h) *Acquisition of Oracle Ridge (Note 3)*

Canadian GAAP

If an acquired project does not constitute a business, the transaction is accounted for as the acquisition of an asset and results in a deferred tax asset or liability being recognized for any difference between the resulting carrying value and the tax basis of the asset.

IFRS

If an acquired project does not constitute a business, the transaction is accounted for as an acquisition of an asset, however, no deferred tax asset or liability is recognized because of the initial recognition exception in IAS 12, which prohibits recording of deferred tax assets or liabilities on asset acquisitions.

As a result, as at December 31, 2010 an amount of \$9,957,000 was recorded to reduce the carrying value of mineral properties, and also remove the deferred tax liability to reflect this difference.

(i) *Exploration and evaluation expenditures*

Canadian GAAP

The Company's accounting policy was to capitalize all costs relating to the acquisition of, exploration for and development of mineral claims.

IFRS

The Company has elected to adopt an accounting policy to expense all costs relating to exploration and development of mineral claims until such time as technical feasibility for the related mineral property can be established.

(j) *Statement of cash flows*

The adoption of IFRS had no material impact on the net cash flows of the Company.

(k) *Reclassification of the equity section*

Canadian GAAP

The fair value of warrants is reclassified to contributed surplus when the warrants expire.

IFRS

Amounts recorded in warrant reserve are not reclassified on expiry.

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

21. Transition to International Financial Reporting Standards (continued)

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

		As at January 1, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$
Assets				
Current assets				
Cash and cash equivalents		12,885	-	12,885
Marketable securities		1,783	-	1,783
Available-for-sale investment	(g)	-	2,647	2,647
Prepaid expenses and other receivables		55	-	55
		14,723	2,647	17,370
Plant and equipment				
		26	-	26
		14,749	2,647	17,396
Liabilities				
Current liabilities				
Trade and other payables		500	-	500
		500	-	500
Equity				
Issued capital		46,312	-	46,312
Warrant reserve		2,061	-	2,061
Share-based payment reserve	(f)	3,333	94	3,427
Foreign currency translation reserve	(c)	3,642	(3,642)	-
Deficit	(c)(f)(g)	(41,099)	6,195	(34,904)
		14,249	2,647	16,896
		14,749	2,647	17,396

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

21. Transition to International Financial Reporting Standards (continued)

The Canadian GAAP statement of comprehensive income (loss) for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		Year ended December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$
Operating costs				
Exploration and evaluation expenditures	(i)	-	633	633
Depreciation		15	-	15
General and administration expenses		3,209	-	3,209
Share-based payment reserves	(f)	1,245	163	1,408
Loss from operations		(4,469)	(796)	(5,265)
Other expenses (income)				
Foreign exchange loss		570	-	570
Interest and financing charges		29	-	29
Gain on sale of marketable securities		(2,918)	-	(2,918)
Gain on sale of investment in CMSJ	(g)	(4,425)	2,647	(1,778)
Loss on sale of equipment		16	-	16
Net income (loss)		2,259	(3,443)	(1,184)
Foreign currency translation		1,100	-	1,100
Total comprehensive income (loss)		3,359	(3,443)	(84)

Oracle Mining Corp.

(Formerly Gold Hawk Resources Inc.)

Notes to the consolidated financial statements

December 31, 2011

(In US\$, tabular amounts in thousands, unless otherwise noted)

21. Transition to International Financial Reporting Standards (continued)

The Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

		As at December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$
Assets				
Current assets				
Cash and cash equivalents		25,406	-	25,406
Prepaid expenses and other receivables		207	-	207
		25,613	-	25,613
Plant and equipment				
Mineral properties	(h)(i)	31,337	(10,590)	20,747
		57,088	(10,590)	46,498
Liabilities				
Current liabilities				
Trade and other payables		1,431	-	1,431
Other current liabilities		558	-	558
Current portion of promissory notes payable		1,000	-	1,000
		2,989	-	2,989
Promissory notes payable				
Other long-term liabilities		481	-	481
Deferred tax liability	(h)	9,957	(9,957)	-
		15,581	(9,957)	5,624
Equity				
Issued capital		69,250	-	69,250
Warrant reserve	(k)	643	1,286	1,929
Share-based payment reserve	(f)(k)	5,777	(1,094)	4,683
Foreign currency translation reserve	(c)	4,676	(3,576)	1,100
Deficit	(c)(f)(i)	(38,839)	2,751	(36,088)
		41,507	(633)	40,874
		57,088	(10,590)	46,498