STRONGBOW EXPLORATION INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2011

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

<u>Reader's Note</u>:

These condensed interim consolidated financial statements of Strongbow Exploration Inc. ("Strongbow") for the nine months ended October 31, 2011 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

STRONGBOW EXPLORATION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	October 31, 2011	January 31, 2011
ASSETS		
Current		
Cash and equivalents	$ 731,244	$ 2,994,120
Marketable securities (Note 4)	653,799	874,631
Receivables (Note 5)	28,755	33,216
Prepaid expenses	100,620	59,918
	1,514,418	3,961,885
Property and equipment (Note 7)	26,425	33,959
Mineral properties (Note 8)	13,436,569	12,096,800
	$ 14,977,412	$ 16,092,644
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 6)	$ 122,392	$ 171,112
CAPITAL AND RESERVES		
Capital stock (Note 9)	25,300,420	24,809,253
Share-based payment reserve (Note 9)	3,952,347	3,642,543
Investment revaluation reserve	361,320	617,152
Deficit	(14,759,067)	(13,147,416)
	14,855,020	15,921,532
	$ 14,977,412	$ 16,092,644

Nature and continuance of operations (Note 1)
Commitments (Note 12)
IFRS Transition (Note 14)

Approved and authorized on behalf of the Board on December 15, 2011:

"D. Grenville Thomas" Director *"Kenneth A. Armstrong"* Director

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

STRONGBOW EXPLORATION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Three Months Ending		Nine Months Ending	
	October 31, 2011	October 31, 2010	October 31, 2011	October 31, 2010
EXPENSES				
Advertising and promotion	$ 24,612	$ 13,368	$ 100,588	$ 46,498
Depreciation	2,511	4,260	7,534	12,517
Insurance	10,874	6,449	31,244	17,488
Office, miscellaneous and rent	6,455	22,705	57,719	71,036
Professional fees	34,399	66,940	127,902	115,056
Generative exploration costs	96,814	-	302,071	16,335
Regulatory and filing fees	1,296	2,547	17,574	14,220
Salaries and benefits	42,235	34,568	135,092	97,283
Share-based compensation (Note 9)	153,530	83,331	507,155	119,796
Loss before other items	(372,726)	(234,168)	(1,286,879)	(510,229)
OTHER ITEMS				
Write-off of mineral properties (Note 8)	(344,097)	(422,246)	(344,097)	(394,038)
Mineral exploration tax credit	-	-	2,395	-
Interest income	3,165	339	16,930	1,025
Gain on sale of marketable securities (Note 4)	-	44,469	-	72,377
	(340,932)	(377,438)	(324,772)	(320,636)
Loss for the period	(713,658)	(611,606)	(1,611,651)	(830,865)
Unrealized (losses)/gains on available-for-sale financial assets arising during the period	(78,644)	213,668	(255,832)	11,508
Comprehensive loss for the period	$ (792,302)	$ (397,938)	$ (1,867,483)	$ (819,357)
Basic and diluted loss per share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)
Weighted average number of common shares outstanding	81,995,963	66,144,115	81,885,367	66,130,422

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

STRONGBOW EXPLORATION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Nine Months Ending October 31, 2011	Nine Months Ending October 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ (1,611,651)	$ (830,865)
Items not involving cash:		
Depreciation	7,534	12,517
Share-based compensation	507,155	119,796
Write-off of mineral properties	344,097	394,038
Gain on sale of marketable securities	-	(72,377)
Changes in non-cash working capital items:		
Decrease in receivables	4,752	39,203
Increase in prepaid expenses	(40,702)	(816)
Increase/(decrease) in accounts payable and accrued liabilities	(47,513)	87,862
Net cash used in operating activities	(836,328)	(250,642)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on mineral properties	(1,833,949)	(581,052)
Recoveries on mineral properties	113,585	19,694
Acquisition of property and equipment	-	(5,852)
Proceeds from sale of marketable securities	-	481,693
Net cash used in investing activities	(1,720,364)	(85,517)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	288,781	-
Share issue costs	5,035	(315)
Net cash provided by financing activities	293,816	(315)
Change in cash and equivalents during the period	(2,262,876)	(336,474)
Cash and equivalents, beginning of period	2,994,120	795,723
Cash and equivalents, end of period	$ 731,244	$ 459,249
Cash paid during the period for interest	$ -	$ -
Cash paid during the period for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 11)

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

STRONGBOW EXPLORATION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital Amount	Share-based payment reserve	Investment revaluation reserve	Deficit	Total
Balance at February 1, 2010	**66,123,463**	**$21,512,543**	**$ 3,355,186**	**$ 800,528**	**$ (11,920,695)**	**$13,747,562**
Share issue costs		(315)				(315)
Shares issued for mineral properties	100,000	24,000				24,000
Share-based compensation			119,796			119,796
Loss for period					(830,865)	(830,865)
Investment loss				(184,657)		(184,657)
Balance at October 31, 2010	**66,223,463**	**$ 21,536,228**	**$ 3,474,982**	**$ 615,871**	**$ (12,751,560)**	**$ 12,875,521**
Balance at January 31, 2011	**81,223,463**	**$ 24,809,253**	**$ 3,642,543**	**$ 617,152**	**$ (13,147,416)**	**$ 15,921,532**
Share issuance recoveries/(costs)		5,035				5,035
Shares issued for cash on exercise of options and warrants	772,500	486,132	(197,351)			288,781
Share-based compensation			507,155			507,155
Loss for period					(1,611,651)	(1,611,651)
Investment loss				(255,832)		(255,832)
Balance at October 31, 2011	**81,995,963**	**$ 25,300,420**	**$ 3,952,347**	**$ 361,320**	**$ (14,759,067)**	**$ 14,855,020**

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Strongbow Exploration Inc. or (the "Company") is incorporated federally under the laws of the Canada Business Corporations Act ("CBCA").

The condensed interim consolidated statements of financial position and statements of loss and comprehensive income (loss) of the Company are presented in Canadian dollars, which is the functional currency of the Company. The Company trades on the TSX Venture Exchange, (TSXV – SBW) and its address is Suite 860 – 625 Howe Street, Vancouver, BC, Canada V6C 2T6.

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Palmetto State Gold Inc. ("Palmetto"), a South Carolina corporation. All inter-company transactions and balances have been eliminated upon consolidation.

The Company's principal business activity is the acquisition and exploration of mineral properties. To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage.

The Company is in the process of acquiring and exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the financing necessary to complete the development of its mineral properties and upon future profitable production.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. However, the Company has sustained substantial losses from operations since inception and has no current source of revenue. Continued operations of the Company are dependent on the Company's ability to complete equity financings or generate profitable operations in the future. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PRESENTATION

Statement of Compliance and Conversion to International Financial Reporting Standards

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed interim consolidated financial statements. In these condensed interim financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting ("IAS 34") and IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS is explained in Note 14, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended January 31, 2011.

The Company's IFRS accounting policies are set out in Note 3 of the condensed interim consolidated financial statements for the three month period ended April 30, 2011.

2. BASIS OF PRESENTATION - *Continued*

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of December 15, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending January 31, 2012 could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the company's Canadian GAAP audited financial statements for the year ended January 31, 2011.

New Accounting Standards

The following new standards, amendments and interpretations have not been early adopted in these interim financial statements. The Company is currently evaluating their effect on future operations:

IFRS 10, "Consolidated Financial Statements", establishing principles for the presentation and preparation of consolidated financial statements (effective for periods beginning on or after January 1, 2013).

IFRS 11, "Joint Arrangements", which sets out principles for the financial reporting of joint arrangements (effective for periods beginning on or after January 1, 2013).

IFRS 12, "Disclosure of Interests in Other Entities", to address an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity (effective for periods beginning on or after January 1, 2013).

IAS 27, "Separate Financial Statements", outlines accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements (effective for periods beginning on or after January 1, 2013).

IAS 28, "Investments in Associates and Joint Ventures", provides guidance in accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures (effective for periods beginning on or after January 1, 2013).

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and equivalents, marketable securities, receivables, and accounts payable and accrued liabilities. Cash and equivalents are carried at fair value using a level 1 fair value measurement. The carrying value of receivables, accounts payable and accrued liabilities approximate their fair values due to their immediate or short-term maturity. Marketable securities are recorded at fair value based on the quoted market prices in active markets at the balance sheet date, which is consistent with level 1 of the fair value hierarchy.

The Company is exposed to a variety of financial risks by virtue of its activities, including credit risk, interest rate risk, liquidity risks, foreign currency risk, and equity market risk. The Company's objective with respect to risk management is to minimize potential adverse effects on the Company's financial performance. The Board of Directors provides direction and guidance to management with respect to risk management. Management is responsible for establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations. The Company manages credit risk by investing its excess cash in short-term investments with investment grade ratings, issued by a Canadian chartered bank. The Company's receivables consist primarily of sales tax receivables due from the federal government and receivables from companies with which the Company has exploration agreements or options. The maximum exposure to credit risk at the reporting date is the carrying value of the Company's receivables and cash and equivalents.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - *Continued*

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to interest rate risk with respect to its cash flow. The risk that the Company will realize a loss as a result of a decline in the fair value of any short-term investment included in cash and equivalents is limited because these investments, although readily convertible into cash, are generally held to maturity.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required through future equity financings, asset sales or exploration option agreements, or a combination thereof. The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipating investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further exploration and development of the Company's properties, or ultimately the loss of these properties. As at October 31, 2011, the Company had cash and equivalents of $731,244 available to settle current liabilities of $122,392.

Foreign Currency Risk

The Company has exposure to foreign currency risk through its mineral properties in the United States however, the majority of its assets and liabilities are denominated in Canadian dollars (Note 15). The Company's exploration activities and ongoing land tenure expense in the United States make it subject to foreign currency fluctuations, which may affect the Company's financial position and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and the US dollar. The Company does not presently invest in foreign currency contracts to mitigate this risk. It is management's opinion that the Company is not exposed to significant foreign currency risk arising from these financial instruments.

Equity market risk

The Company is exposed to equity price risk arising from its marketable securities, which are classified as available-for- sale. The Company plans to sell its marketable securities as market conditions permit, or as is required to finance the Company's operations from time-to-time.

4. MARKETABLE SECURITIES

	October 31, 2011			January 31, 2011		
	Cost	**Unrealized (Loss)/Gain***	**Fair Market Value**	Cost	Unrealized Gain*	Fair Market Value
Various public companies	**$ 51,500**	**$ (24,250)**	**$ 27,250**	$ 16,500	$ 14,699	$ 31,199
North Arrow Minerals Inc.	**240,979**	**385,570**	**626,549**	240,979	602,453	843,432
	$ 292,479	**$ 361,320**	**$ 653,799**	$257,479	$ 617,152	$ 874,631

*before future income taxes

North Arrow Minerals Inc. ("North Arrow") and the Company are related by virtue of two common directors.

During the nine months ended October 31, 2011, the Company received common shares of a TSX-Venture Exchange Company with a fair value of $35,000 pursuant to a property option agreement (Note 8).

During the nine months ended October 31, 2010, the Company received gross proceeds of $481,693 from the sale of marketable securities and recognized a gain on sale of $72,377.

(Expressed in Canadian Dollars)

5. RECEIVABLES

	October 31, 2011	January 31, 2011
HST/GST receivables	**$ 4,225**	$ 3,841
Trade receivables	**8,153**	4,248
Related party receivables	**16,377**	25,127
Total	**$ 28,755**	$ 33,216

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2011	January 31, 2011
Trade payables	**$ 56,783**	$ 98,036
Accrued liabilities	**65,609**	73,076
Total	**$ 122,392**	$ 171,112

7. PROPERTY AND EQUIPMENT

	Furniture and Equipment	Computer Equipment	Software	Leasehold Improvements	Total
Cost					
Balance at February 1, 2010	**$ 43,041**	**$ 116,545**	**$ 41,274**	**$ 32,072**	**$ 232,932**
Additions	-	8,794	1,258	-	10,052
Balance at January 31, 2011	**43,041**	**125,339**	**42,532**	**32,072**	**242,984**
Balance at October 31, 2011	**$ 43,041**	**$ 125,339**	**$ 42,532**	**$ 32,072**	**$ 242,984**

	Furniture and Equipment	Computer Equipment	Software	Leasehold Improvements	Total
Accumulated Depreciation					
Balance at February 1, 2010	**$ 35,748**	**$ 87,944**	**$ 41,274**	**$ 25,986**	**$ 190,952**
Depreciation	1,459	9,899	629	6,086	18,073
Balance at January 31, 2011	**37,207**	**97,843**	**41,903**	**32,072**	**209,025**
Depreciation	875	6,187	472	-	7,534
Balance at October 31, 2011	**$ 38,082**	**$ 104,030**	**$ 42,375**	**$ 32,072**	**$ 216,559**

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT - *Continued*

	Furniture and Equipment	Computer Equipment	Software	Leasehold Improvements	Total
Net Book Value					
February 1, 2010	**$ 7,293**	**$ 28,601**	**$ -**	**$ 6,086**	**$ 41,980**
January 31, 2011	**$ 5,834**	**$ 27,496**	**$ 629**	**$ -**	**$ 33,959**
October 31, 2011	**$ 4,959**	**$ 21,309**	**$ 157**	**$ -**	**$ 26,425**

8. MINERAL PROPERTIES

	January 31, 2011	Expended During The Period	Write-off of Costs and Recoveries	**October 31, 2011**
Gold and Base Metal Properties, British Columbia				
Exploration costs	**$ 50,693**	$ 43,319	$ (28,209)	**$ 65,803**
Acquisition costs	**83,090**	5,227	-	**88,317**
Geological and assays	**128,106**	5,599	(8,557)	**125,148**
Office and salaries	**606,195**	29,736	(76,835)	**559,096**
	868,084	83,881	(113,601)	**838,364**
Gold and Base Metal Properties, NWT& NU				
Exploration costs	**7,420,874**	39,506	-	**7,460,380**
Acquisition costs	**82,657**	2,364	-	**85,021**
Geological and assays	**252,728**	-	-	**252,728**
Office and salaries	**1,120,581**	18,466	-	**1,139,047**
	8,876,840	60,336	-	**8,937,176**
Gold and Base Metal Properties, Saskatchewan				
Exploration costs	**1,136,089**	-	-	**1,136,089**
Acquisition costs	**84,387**	-	-	**84,387**
Geological and assays	**20,161**	-	-	**20,161**
Office and salaries	**234,324**	681	-	**235,005**
	1,474,961	681	-	**1,475,642**
Gold and Base Metal Properties, USA				
Exploration costs	**235,854**	842,170	(176,587)	**901,437**
Acquisition costs	**375,025**	369,859	(85,716)	**659,168**
Geological and assays	**52,247**	88,911	(25,791)	**115,367**
Office and salaries	**213,789**	351,612	(55,986)	**509,415**
	876,915	1,652,552	(344,080)	**2,185,387**
TOTAL	**$ 12,096,800**	$ 1,797,450	$ (457,681)	**$ 13,436,569**

During the nine months ended October 31, 2011, the Company wrote-off $344,097 (October 31, 2010 - $394,038) relating to certain properties where no future exploration work was planned and recorded recoveries for B.C. mineral exploration tax credits of $53,585 (October 31, 2010 – $17,792) and other recoveries of $60,000 (October 31, 2010 - $1,902). Of the $53,585 in BC mineral exploration tax credits received, $2,395 has been included on the condensed interim consolidated statements of loss and deficit for the nine months ended October 31, 2011.

8. MINERAL PROPERTIES - *Continued*

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

Gold and Base Metal Properties, British Columbia

The Company maintains interests in various gold and base metal properties in B.C. in addition to the properties described below.

Shovelnose Properties

The Company acquired, by staking, a 100% interest in certain mineral claims comprising the Shovelnose property in October 2005. The Company expanded the Shovelnose property by staking additional mineral claims in November 2008.

In January 2011, the Company signed an option agreement with Westhaven Ventures Inc. (“Westhaven”), whereby Westhaven can earn up to a 70% interest in the Company’s Shovelnose property. A director of the Company is also a director of Westhaven. Under the terms of the option agreement, Westhaven can earn an initial 51% interest in the Shovelnose property by i) incurring $1.5 million in exploration expenditures over a three year period, including a firm commitment to spend $250,000 in the first year of the agreement, and ii) issuing a total of 300,000 common shares to Strongbow including 100,000 common shares within five business days of regulatory approval of the option agreement (100,000 common shares received in July 2011). Within twelve months of having earned its 51% interest in the property, Westhaven will have the option to earn an additional 19% interest (bringing its total property interest to 70%) by i) issuing an additional 500,000 shares to the Company and ii) incurring an additional $1.5 million in exploration expenditures.

Inza Property

In September 2008 and February 2009, the Company acquired, by staking, a 100% interest in certain mineral claims comprising the Inza property. In February 2009, the Company acquired a 100% interest in five additional mineral claims prospective for copper-gold by issuing a total of 250,000 common shares with a fair value of $15,000 to two prospectors.

In April 2011, the Company and Xstrata Copper Canada (“Xstrata”) entered into an agreement whereby Xstrata may earn up to a 75% interest in the Inza Properties. Under the terms of the agreement, Xstrata may earn an initial 51% interest by making staged cash payments to the Company totalling $100,000, of which $25,000 was received during the nine months ended October 31, 2011, and incurring cumulative exploration expenditures totalling $1.1 million over a four year period. Upon vesting at a 51% interest in the property, a joint venture will be formed and Xstrata will maintain the right to earn a further 24% interest (75% interest total) by funding the completion of a pre-feasibility study and a feasibility study or incurring $20 million in expenditures towards the completion of a prefeasibility study and a feasibility study on the property.

Gold and Base Metal Properties, Northwest Territories and Nunavut

The Company maintains interests in various gold and base metal properties in the Northwest Territories and Nunavut in addition to the properties described below.

Opescal Lake, NWT

The Company acquired, by staking, a 100% interest in certain mineral claims forming part of the Company’s Snowbird nickel project, in December 2006.

Nickel King Project, NWT

The Company holds a 100% interest in a number of mineral claims and mining leases in the southern Northwest Territories. Certain of these mining leases are subject to a 3% NSR on base and precious metals production and an additional 2% gross overriding royalty (“GOR”). The Company may purchase the entire NSR at any time for $1,500,000 and the Company may purchase one-half (1%) of the GOR at any time for $2,500,000.

8. MINERAL PROPERTIES - *Continued*

Gold and Base Metal Properties, Saskatchewan

The Company maintains a 100% interest in a number of mineral claims in northern Saskatchewan that form part of the Company's Snowbird nickel project, including the Dumas Lake, Heel, Breynat and Opescal Lake (Saskatchewan) properties.

Gold Properties, USA

Midway Gold Project, South Carolina, USA

Between July 2010 and October 2011, the Company entered into thirty-one property option agreements with private land owners in South Carolina (the "Midway gold project"). The terms of the option agreements include certain annual cash payments to the landowners and the issuance of 100,000 common shares (issued at a value of $24,000). If the option agreement is exercised by the Company, the Company will either purchase each property or enter into a long term mining lease with the property owner. The properties will be subject to a gross overriding royalty to the current land owners.

To maintain the property option agreements in good standing, the Company must make the following payments to landowners over the next five years (all amounts in US Dollars):

2012 - $347,442
2013 - $350,732
2014 - $354,022
2015 - $340,860
2016 - $340,860

Parker Gold Mine, North Carolina, USA

In March 2011, the Company entered into an option agreement to purchase the Parker mine property in North Carolina, USA by making $120,000 in payments to the current owner over a 30 month period, ($80,000 in the first year, which has been paid, and $40,000 in the second year). Upon exercising the option, Palmetto can purchase the property for a maximum price of $10.3 million. The property is subject to a 1.5% gross overriding royalty. Based on the results of a drill program at the property, the Company has stopped exploration and the property's carrying value of $344,080 has been written off.

Ridgeway, North Carolina, USA

In June 2011 and October 2011, the Company concluded two property option agreements with private landowners to explore eighteen properties in South Carolina, USA. The terms of the option agreements include certain annual cash payments and, upon exercising an option, the Company may purchase the property or enter into a long-term mining lease. The properties are subject to a gross overriding royalty to the current landowners. Initial option payments made to the land owners in 2011 total $69,566.

To maintain the property option agreements in good standing, the Company must make the following payments to landowners over the next four years (all amounts in US Dollars):

2012 - $87,153
2013 - $146,506
2014 - $118,706
2015 - $90,125

(Expressed in Canadian Dollars)

9. CAPITAL STOCK AND RESERVES

Share issuances

There were 100,000 common shares issued during the nine months ended October 31, 2010 with respect to a property option agreement. For the nine months ended October 31, 2011 there were 772,500 shares issued from the exercise of stock options and warrants.

Stock options and warrants

In June 2011, the Company's shareholders approved the Company's Stock Option Plan (the "Plan"), which establishes a rolling number of shares issuable under the plan in the amount of 10% of the Company's issued shares at the date of grant.

Under the terms of the Plan, the exercise price of each stock option granted cannot be less than the market price at the date of grant, less a discount up to 25% in accordance with the policies of the TSX-V. Options granted can have a term up to five years with vesting provisions determined by the directors in accordance with TSX-V policies for Tier 2 Issuers. Typically, the Company has granted stock options at or above the market price on the grant date, with a vesting period of 25% upon grant and 25% every six months thereafter.

As at October 31, 2011, the following stock options and warrants were outstanding:

	Number of Shares		Exercise Price	Number Vested	Expiry Date
Options	990,000		0.6552	990,000	March 29, 2012
	845,000		0.4600	845,000	December 21, 2012
	1,575,000		0.1700	1,575,000	July 26, 2014
	1,760,000		0.2000	1,320,000	September 23, 2015
	70,000		0.4200	35,000	December 22, 2015
	1,710,000		0.5500	855,000	April 28, 2016
Warrants	462,500	$	0.3500	462,500	November 15, 2011**

**Subsequently expired

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, January 31, 2011	6,675,000	$	0.35
Granted	1,710,000		0.55
Expired	(950,000)		0.51
Exercised	(485,000)		0.39
Balance, October 31, 2011	6,950,000	$	0.38
Number of options currently exercisable	5,620,000	$	0.37

(Expressed in Canadian Dollars)

9. CAPITAL STOCK AND RESERVES – *Continued*

Stock options and warrants

	Number of Warrants		Weighted Average Exercise Price
Balance, January 31, 2011	750,000	$	0.35
Exercised	(287,500)		0.35
Balance, October 31, 2011	462,500*	$	0.35

*Subsequently expired

Share-based compensation

During the nine months ended October 31, 2011, the Company granted 1,710,000 stock options (October 31, 2010 – 1,760,000) with a fair value of $588,023 (October 31, 2010 – $219,238). Total share-based compensation recognized during the nine months ended October 31, 2011 was $507,155 (October 31, 2010 – $119,796).

	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
Risk-free interest rate	**2.04%**	1.62%
Expected life of options	**3 years**	3 years
Annualized volatility	**100%**	100%
Dividend rate	**0.00%**	0.00%

10. RELATED PARTY TRANSACTIONS

During the nine months ended October 31, 2011, the Company charged rent of $16,000 (October 31, 2010 - $18,000) to North Arrow, a company with two common directors.

Included in receivables are amounts due from North Arrow totaling $16,218 (January 31, 2011 - $22,510) for reimbursement of exploration expenditures and shared administrative expenses paid by the Company on North Arrow's behalf.

The remuneration of directors and key management personnel during the nine month period ending October 31, 2011 was as follows:

		Nine Months Ended October 31, 2011		Nine Months Ended October 31, 2010
Salaries[1]	**$**	**222,917**	$	193,705
Share-based payments[2]		**438,438**		170,034
Total	**$**	**661,355**	$	363,739

1 – When key management is working specifically on mineral properties their time is capitalized against the mineral property.

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

(Expressed in Canadian Dollars)

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

At October 31, 2011, cash and equivalents of $731,244 (January 31, 2011 - $2,994,120) consisted of cash on deposit of $49,340 (January 31, 2011 - $151,895) and short term investments of $681,904 (January 31, 2011 - $2,842,225).

The significant non-cash transactions for the nine months ended October 31, 2011 were:

a) The Company incurring mineral property expenditures of $40,381 that are included in accounts payable and accrued liabilities.

b) The Company has included mineral property recoveries of $9,252 in receivables.

c) The Company received 100,000 common shares of a TSX-V company with a fair value of $35,000 (Note 4).

The significant non-cash transactions for the nine months ended October 31, 2010 were:

a) The Company incurring mineral property expenditures of $31,103 that are included in accounts payable and accrued liabilities.

b) The Company included deferred mineral property costs of $17,871 in receivables.

12. COMMITMENTS

The Company is committed to minimum future lease payments for office premises through to January 31, 2016 and leased office equipment through to January 31, 2017 as follows:

Fiscal year ending January 31, 2012	$ 63,446
Fiscal year ending January 31, 2013	$ 62,904
Fiscal year ending January 31, 2014	$ 62,904
Fiscal year ending January 31, 2015	$ 62,904
Fiscal year ending January 31, 2016	$ 62,904
Fiscal year ending January 31, 2017	$ 8,778

The Company's lease costs may be reduced due to recoveries through sub-leases.

13. CAPITAL MANAGEMENT

The capital of the Company consists of the items included in capital and reserves. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company. The Company's objective for capital management is to plan for the capital required to support the Company's ongoing acquisition and exploration of its mineral properties and to provide sufficient funds for its corporate activities.

The Company's mineral properties are in the exploration stage. As an exploration stage company, the Company is currently unable to self-finance its operations. The Company has historically relied on equity financings and, in recent years, asset sales or exploration option agreements to finance its operations. In order to carry out the Company's planned exploration programs and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as required. To effectively manage the Company's capital requirements, the Company's management has in place a planning and budgeting process.

14. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The effect of the Company's transition to IFRS, described in Note 2, is summarized in this note. IFRS 1, First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated February 1, 2010:

a) Business Combinations

IFRS 1 indicates 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 chosen this election and will apply IFRS 3 to business combinations prospectively from the Transition Date.

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 chosen to only apply IFRS 2 to equity instruments granted after November 7, 2002 which have not vested as of the Transition Date.

c) 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 February 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Reclassification Within Equity Section

As at February 1, 2010 the "contributed surplus" account was reclassified to "share-based payment reserve" and the "accumulated other comprehensive income" account was reclassified to "investment revaluation reserve" as terminologies differ under IFRS.

Reconciliation of CDN GAAP to IFRS

A reconciliation of assets, liabilities, equity, comprehensive income (loss) and cash flows of the Company from those reported under Canadian GAAP to IFRS at February 1, 2010, January 31, 2011 and April 30, 2010 were disclosed in Note 15 of the condensed interim consolidated financial statements for the three months ended April 30, 2011. Reconciliations of assets, liabilities, and equity, comprehensive income/(loss) and cash flows of the Company at October 31, 2010 from those reported under CDN GAAP to IFRS are presented below.

(Expressed in Canadian Dollars)

14. Transition to International Financial Reporting Standards - *Continued*

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

	October 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Current assets			
Cash and equivalents	$ 459,249	$ -	$ 459,249
Marketable securities	879,013	-	879,013
Receivables	48,490	-	48,490
Prepaid expenses	55,113	-	55,113
	1,441,865	-	1,441,865
Property and equipment	35,315	-	35,315
Mineral properties[1]	11,928,338	(317,660)	11,610,678
	$ 13,405,518	$ (317,660)	$ 13,087,858
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	$ 212,337	$ -	$ 212,337
CAPITAL AND RESERVES			
Capital stock	21,536,228	-	21,536,228
Share-based payment reserve[2]	3,410,792	64,190	3,474,982
Investments revaluation reserve	615,871	-	615,871
Deficit	(12,369,710)	(381,850)	(12,751,560)
	13,193,181	(317,660)	12,875,521
	$ 13,405,518	$ (317,660)	$ 13,087,858

(Expressed in Canadian Dollars)

14. Transition to International Financial Reporting Standards - *Continued*

The October 31, 2010 Canadian GAAP Mineral Property Schedule has been reconciled to IFRS as follows:

	October 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Gold and Base Metal Properties, British Columbia			
Exploration costs	$ 229,609	$ -	$ 229,609
Acquisition costs	65,965	-	65,965
Geological and assays	84,386	-	84,386
Office and salaries	472,271	-	472,271
	852,231	-	852,231
Gold and Base Metal Properties, NWT& NU			
Exploration costs	7,642,162	(222,234)	7,419,928
Acquisition costs	79,155	(242)	78,913
Geological and assays	273,492	(20,764)	252,728
Office and salaries	1,176,744	(58,085)	1,118,659
	9,171,553	(301,325)	8,870,228
Gold and Base Metal Properties, Saskatchewan			
Exploration costs	1,135,491	-	1,135,491
Acquisition costs	84,388	-	84,388
Geological and assays	20,160	-	20,160
Office and salaries	232,641	-	232,641
	1,472,680	-	1,472,680
Gold Properties USA			
Exploration costs	86,443	(7,067)	79,376
Acquisition costs	148,222	-	148,222
Geological and assays	4,039	(1,340)	2,699
Office and salaries	115,020	(7,928)	107,092
	353,724	(16,335)	337,389
Other Exploration and Generative Exploration			
Exploration costs	3,715	-	3,715
Acquisition costs	10,810	-	10,810
Geological and assays	2,119	-	2,119
Office and salaries	61,506	-	61,506
	78,150	-	78,150
TOTAL	$ 11,928,338	$ (317,660)	$ 11,610,678

(Expressed in Canadian Dollars)

14. Transition to International Financial Reporting Standards - *Continued*

The Canadian GAAP statement of comprehensive loss for the three months ending October 31, 2010 has been reconciled to IFRS as follows:

	3 Months Ended October 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses			
Advertising and promotion	$ 13,368	$ -	$ 13,368
Depreciation	4,260	-	4,260
Insurance	6,449	-	6,449
Office, miscellaneous and rent	22,705	-	22,705
Professional fees	66,940	-	66,940
Generative exploration costs	-	-	-
Regulatory and filing fees	2,547	-	2,547
Salaries and benefits	34,568	-	34,568
Share-based compensation[2]	54,201	29,130	83,331
Loss before other items	(205,038)	(29,130)	(234,168)
Other Items			
Write-off of mineral properties[1]	(422,246)	-	(422,246)
Interest income	339	-	339
Gain on sale of marketable securities	44,469	-	44,469
	(377,438)	-	(377,438)
Loss for the period	(582,476)	(29,130)	(611,606)
Unrealized gains (losses) on available-for-sale financial assets arising during the period	213,668	-	213,668
Comprehensive loss for the period	$ (368,808)	$ (29,130)	$ (397,938)

(Expressed in Canadian Dollars)

14. Transition to International Financial Reporting Standards - *Continued*

The Canadian GAAP statement of comprehensive loss for the nine months ending October 31, 2010 has been reconciled to IFRS as follows:

	9 Months Ended October 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses			
Advertising and promotion	$ 46,498	$ -	$ 46,498
Depreciation	12,517	-	12,517
Insurance	17,488	-	17,488
Office, miscellaneous and rent	71,036	-	71,036
Professional fees	115,056	-	115,056
Generative exploration costs	-	16,335	16,335
Regulatory and filing fees	14,220	-	14,220
Salaries and benefits	97,283	-	97,283
Share-based compensation[2]	113,884	5,912	119,796
Loss before other items	(487,982)	(22,247)	(510,229)
Other Items			
Write-off of mineral properties[1]	(439,798)	45,760	(394,038)
Interest income	1,025	-	1,025
Gain on sale of marketable securities	72,377	-	72,377
	(366,396)	45,760	(320,636)
Loss for the period	(854,378)	23,513	(830,865)
Unrealized gains on available-for-sale financial assets arising during the period	11,508	-	11,508
Comprehensive loss for the period	$ (842,870)	$ 23,513	$ (819,357)

(Expressed in Canadian Dollars)

14. Transition to International Financial Reporting Standards - *Continued*

The Canadian GAAP statement of cash flows for the nine months ending October 31, 2010 has been reconciled to IFRS as follows:

	Nine Months Ending October 31, 2010		
	CDN GAAP	Effect of transition to IFRS	IFRS
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	$ (854,378)	$ 23,513	$ (830,865)
Items not involving cash:			
Depreciation	12,517	-	12,517
Share-based compensation	113,884	5,912	119,796
Write-off of mineral properties	439,798	(45,760)	394,038
Gain on sale of marketable securities	(72,377)	-	(72,377)
Changes in non-cash working capital items:			
Decrease in receivables	39,203	-	39,203
Increase in prepaid expenses	(816)	-	(816)
Increase in accounts payable and accrued liabilities	87,862	-	87,862
Net cash used in operating activities	(234,307)	(16,335)	(250,642)
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures on mineral properties	(597,388)	16,335	(581,052)
Recoveries on mineral properties	19,694	-	19,694
Acquisition of property and equipment	(5,852)	-	(5,852)
Proceeds from sale of marketable securities	481,693	-	481,693
Net cash used in investing activities	(101,853)	16,335	(85,517)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share issue costs	(315)	-	(315)
Net cash provided by financing activities	(315)	-	(315)
Change in cash and equivalents during the period	(336,474)	-	(336,474)
Cash and equivalents, beginning of period	795,723	-	795,723
Cash and equivalents, end of period	$ 459,249	$ -	$ 459,249
Cash paid during the period for interest	$ -	$ -	$ -
Cash paid during the period for income taxes	$ -	$ -	$ -

(Expressed in Canadian Dollars)

14. Transition to International Financial Reporting Standards - *Continued*

(1) – IFRS 6 requires all exploration costs that are incurred before a company has obtained legal rights to explore a specific area to be expensed in the year that they are incurred. Management has determined that under IFRS the Company's accounting policy for exploration and evaluation assets is that exploration expenditures should be expensed and only capitalized to Mineral Properties after the legal rights have been obtained.

On transition to IFRS $347,085 of capitalized mineral exploration costs existed at February 1, 2010 and these costs were capitalized before legal title was obtained and have been derecognized and expensed in Deficit.

(2) – The accounting policy under IFRS 2 has been retrospectively applied to all equity instruments granted after November 7, 2002 and that have not vested at February 1, 2010.

IFRS 2 requires share-based payments to be fair valued at the grant date and charged through the statement of loss over the vesting period using the graded method of vesting. The straight line method of amortization, used previously by the Company in accordance with Canadian GAAP, is disallowed. The expense of performance options under Canadian GAAP is typically recognized when the performance criteria are met and is often called "cliff vesting" where all of the expense is recognized upon satisfaction of the performance criteria. However, under IFRS the expense associated with performance options must be spread over the expected vesting period of the performance options.

15. SEGMENTED INFORMATION

The Company operates in one business segment being the exploration of mineral properties in Canada and the United States as follows:

	October 31, 2011			January 31, 2011		
	Canada	**United States**	**Total**	Canada	United States	Total
Mineral Properties	**$ 11,251,182**	**$ 2,185,387**	**$ 13,436,569**	$ 11,219,885	$ 876,915	$ 12,096,800
Equipment	**26,425**	**-**	**26,425**	33,959	-	33,959
	$ 11,277,607	**$ 2,185,387**	**$ 13,462,994**	$ 11,253,844	$ 876,915	$ 12,130,759