

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**

**Consolidated Financial Statements**  
**March 31, 2012**  
**(Expressed in Canadian Dollars)**

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## **NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors.

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

**Spanish Mountain Gold Ltd.**  
**(An Exploration Stage Company)**  
**Consolidated Balance Sheets**  
**(Expressed in Canadian Dollars)**

	Note	March 31, 2012	December 31, 2011
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 11,376,614	\$ 17,290,967
Accounts receivable		463,285	540,249
Tax credit receivable	9	2,341,587	1,474,091
Prepaid expenses and deposits		343,604	143,870
		14,525,089	19,449,178
<b>Mineral Properties</b>	6	65,528,673	62,619,030
<b>Property and Equipment</b>	7	1,214,786	1,222,280
<b>Deposits for Reclamation</b>		117,000	117,000
		\$ 81,385,548	\$ 83,407,488
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	10	\$ 2,237,519	\$ 3,846,681
		2,237,519	3,846,681
<b>Deferred Income Taxes</b>	9	2,967,801	3,341,422
		5,205,320	7,188,103
<b>Shareholders' Equity</b>			
<b>Capital Stock</b>	8	79,264,600	79,264,600
<b>Share-Based Payments Reserve</b>	8(e)	3,445,332	3,985,064
<b>Deficit</b>		(6,529,703)	(7,030,279)
		76,180,229	76,219,385
		\$ 81,385,548	\$ 83,407,488

Approved on behalf of the Board:

*"Christopher Lattanzi"*  
..... Director  
Christopher Lattanzi

*"Brian Groves"*  
..... Director  
Brian Groves

**Spanish Mountain Gold Ltd.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**(Expressed in Canadian Dollars)**

	<b>For the Three Months Ended March 31</b>	
	<b>2012</b>	<b>2011</b>
<b>General and Administrative Expenses</b>		
Share-based payments	\$ 194,615	\$ 257,524
Salaries and wages	190,379	207,792
Consulting fees	67,133	6,500
Investor relations	60,887	60,477
Travel, meals and accommodations	46,290	26,495
Legal and accounting	28,142	14,826
Rent	20,001	19,895
Insurance	14,431	13,552
Office and miscellaneous	13,523	10,547
Amortization	7,482	13,307
Transfer agent and filing fees	7,085	5,020
<b>Loss Before Other Items</b>	<b>(649,967)</b>	<b>(635,935)</b>
<b>Other Items</b>		
Interest income, net	42,576	643
Flow-through financing costs	-	(962)
<b>Loss Before Income Taxes</b>	<b>(607,391)</b>	<b>(636,254)</b>
<b>Deferred Income Tax Recovery</b>	<b>373,621</b>	<b>153,830</b>
<b>Net Loss and Comprehensive Loss for Year</b>	<b>\$ (233,770)</b>	<b>\$ (482,424)</b>
<b>Loss Per Share, basic and fully diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>166,085,438</b>	<b>125,941,790</b>

**Spanish Mountain Gold Ltd.**  
**(An Exploration Stage Company)**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**(Expressed in Canadian Dollars)**

	Number of Common Shares	Amount	Share-Based Payments Reserved	Deficit	Total Equity
<b>Balance, December 31, 2010</b>	124,188,044	\$ 55,791,458	\$ 3,541,098	\$ (5,850,151)	\$ 53,482,405
Issued for cash					
Private placement, net of issue cost	6,410,257	3,176,952	-	-	3,176,952
Exercise of options	362,500	111,250	-	-	111,250
Exercise of warrants	132,500	30,475	-	-	30,475
Fair value of options exercised	-	67,000	(67,000)	-	-
Fair value of expired options	-	-	(2,752)	2,752	-
Share-based payments	-	-	257,524	-	257,524
Net loss for period	-	-	-	(482,424)	(482,424)
<b>Balance, March 31, 2011</b>	131,093,301	\$ 59,177,136	\$ 3,728,870	\$ (6,329,823)	\$ 56,576,182
Issued for cash					
Private placement, net of issue cost	33,333,328	19,495,452	-	-	19,495,452
Exercise of options	560,000	189,500	-	-	189,500
Exercise of warrants	1,098,809	259,376	-	-	259,376
Fair value of options exercised	-	143,137	(143,137)	-	-
Fair value of expired options	-	-	(551,704)	551,704	-
Share-based payments	-	-	951,035	-	951,035
Net loss for period	-	-	-	(1,252,160)	(1,252,160)
<b>Balance, December 31, 2011</b>	166,085,438	\$ 79,264,600	\$ 3,985,064	\$ (7,030,279)	\$ 76,219,385
Fair value of expired options	-	-	(734,345)	734,345	-
Share-based payments	-	-	194,615	-	194,615
Net loss for period	-	-	-	(233,770)	(233,770)
<b>Balance, March 31, 2012</b>	166,085,438	\$ 79,264,600	\$ 3,445,334	\$ (6,529,703)	\$ 76,180,230

**Spanish Mountain Gold Ltd.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**

	<b>For the Three Months Ended, March 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating Activities</b>		
Net loss for period	\$ (233,770)	\$ (482,424)
Items not involving cash		
Share-based payments	194,615	257,524
Amortization	7,482	13,307
Deferred income tax recovery	(373,621)	(153,830)
	(405,294)	(365,423)
Changes in non-cash working capital		
Accounts receivable	76,964	(31,036)
Prepaid expenses and deposits	(199,733)	(33,014)
Accounts payable and accrued liabilities	(1,609,162)	278,227
	(1,731,932)	214,177
<b>Cash Used in Operating Activities</b>	<b>(2,137,225)</b>	<b>(151,246)</b>
<b>Financing Activity</b>		
Shares issued for cash, net of issue costs	-	4,921,241
<b>Investing Activities</b>		
Expenditures on Mineral Properties	(3,763,761)	(1,054,174)
Purchase of Property and Equipment	(13,366)	(4,699)
<b>Cash Used in Investing Activities</b>	<b>(3,777,127)</b>	<b>(1,058,873)</b>
<b>Increase (Decrease) in Cash</b>	<b>(5,914,352)</b>	<b>3,711,122</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>17,290,967</b>	<b>2,660,484</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 11,376,614</b>	<b>\$ 6,371,606</b>

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
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**(Expressed in Canadian Dollars)**

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**1. NATURE OF OPERATIONS**

Spanish Mountain Gold Ltd. (the “Company” or “Spanish Mountain”) is a junior resource exploration stage company incorporated under the Alberta *Business Corporations Act* and continued into British Columbia under the *Business Corporations Act* of British Columbia. The address of the Company’s registered office is Suite 1500 - 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

As the Company is a junior resource exploration stage company, it does not generate any revenue and has been relying on equity-based financing to fund its operations. While the Company expects to meet its financial obligations in the near term, it will require additional financing to meet its administrative costs and to continue to explore and develop its mineral properties, including incurring flow-through obligations (note 9). There is no assurance that future funding will be available to sufficiently conduct further exploration and development of its mineral properties. As at March 31, 2012, the Company has working capital of \$12,287,570 (December 31, 2011 - \$15,602,497) and an accumulated deficit of \$6,529,703 (December 31, 2011 - \$7,030,279).

The application of the going concern concept is dependent upon the Company’s ability to generate future profitable operations and maintain an adequate level of financial resources to discharge its on-going obligations. Management seeks to raise capital, when necessary, to meet its funding requirements and has undertaken available cost cutting measures. There can be no assurance that management’s plan will be successful as it is dependent on prevailing capital market conditions and the availability of other financing opportunities.

**2. BASIS OF PREPARATION**

**Approval of the consolidated financial statements**

The consolidated financial statements of Spanish Mountain Gold Ltd. for the period ended March 31, 2012 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 24, 2012.

**Basis of preparation**

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include:

- the collectability of accounts receivable;
- recovery of Mining Exploration Tax Credits;
- the completeness of accrued liabilities;
- the fair value of financial instruments;
- the rates for amortization of property and equipment;
- the recoverability of mineral properties;
- determination of asset retirement and environmental obligations;
- the utilization of deferred income tax assets; and
- the determination of the variables used in the calculation of share-based payments.

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**2. BASIS OF PREPARATION** (continued)

**Basis of preparation** (continued)

While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

The consolidated financial statements were prepared on a historical cost basis except for financial instruments which are classified as fair value through profit or loss. The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

**Comparative figures**

Certain prior year figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results.

**New accounting pronouncements**

All of the new and revised standards described below may be early-adopted. The Company has not yet assessed the impact of these standards.

(a) IFRS 9 *Financial Instruments* (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss ("FVTPL"); in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

Applicable to annual periods beginning on or after January 1, 2015; this standard supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, an entity may early-adopt IFRS 9 (2009) instead of applying this standard.

(b) IFRS 11 *Joint Arrangements*

Replaces IAS 31 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly).



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**2. BASIS OF PRESENTATION (Continued)**

**New accounting pronouncements (continued)**

(b) IFRS 11 *Joint Arrangements* (continued)

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures* (2011). Unlike IAS 31, the use of “proportionate consolidation” to account for joint ventures is not permitted.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

(c) IFRS 12 *Disclosure of Interests in Other Entities*

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgments and assumptions - such as how control, joint control, significant influence has been determined;
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control and so on;
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information); and
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures, which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

Applicable to annual reporting periods beginning on or after January 1, 2013; if early-adopted, must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

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**2. BASIS OF PRESENTATION (Continued)**

**New accounting pronouncements (continued)**

(d) IFRS 13 *Fair Value Measurement*

Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value and requires disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a "fair value hierarchy" based on the nature of the inputs:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the entity can assess at the measurement date;

Level 2 – Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

Applicable to annual reporting periods beginning on or after January 1, 2013.

(e) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognized as an asset, how the asset is initially recognized, and subsequent measurement.

The Interpretation requires stripping activity costs, which provide improved access to ore, are recognized as a non-current "stripping activity asset" when certain criteria are met. The stripping activity asset is depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units-of-production method unless another method is more appropriate.

Applicable to annual periods beginning on or after January 1, 2013.

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**3. SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies:

**(a) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Wildrose Resources Ltd. ("Wildrose"). All intercompany transactions and balances have been eliminated on consolidation.

**(b) Cash and cash equivalents**

Cash and cash equivalents comprises cash, bank deposits or highly-liquid temporary investments that are readily convertible into known amounts of cash.

**(c) Mineral properties**

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

Costs accumulated relating to projects that are abandoned are written-off in the period in which a decision to discontinue the project is made.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs will be depleted using the unit-of-production method over the estimated life of the ore body based upon recoverable ounces to be mined from estimated proven and probable reserves.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded until the payments are made or received. Proceeds received on the sale or option of the Company's property interest is recorded as a reduction of the mineral property cost. When proceeds received in respect of a property exceed its carrying cost, such excess is recognized in net income (loss).

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Property and equipment**

Property and equipment is recorded at cost and amortized using the declining-balance basis at the following annual rates:

Building	4%
Office equipment	20%
Computer equipment	30%
Vehicles	30%

Amortization on leasehold improvements is recorded on a straight-line basis over the term of the lease.

Additions during the year are amortized on a pro-rated basis. Amortization on property and equipment used directly on exploration projects is included in mineral properties.

**(e) Impairment of non-current assets**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets (the "CGU"), where the recoverable amount of CGU is the greater of the CGU's fair value less costs to sell and its value in use) to which the assets belong.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income (loss), unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expense.

The Company considers none of its assets to be impaired at March 31, 2012. Each project or group of claims or licenses is treated as a CGU.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) Provision for closure and reclamation**

The Company assesses its mine rehabilitation provision at each reporting date. Changes to estimated future costs are recognized in the balance sheet by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*.

The Company records the present value of estimated costs of legal and constructive obligations required to restore mining operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures; rehabilitating mine; dismantling operating facilities; closure of plant and waste sites; and restoration, reclamation and vegetation of affected areas.

Present value is used where the effect of the time value of money is material. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation.

**(g) Mining and exploration tax recoveries**

The Company recognizes mining and exploration tax recoveries in the period in which the related qualifying resource expenditures are incurred. The amount recoverable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

**(h) Non-monetary transactions**

Shares issued for consideration other than cash are valued at the fair value of assets received or services rendered or the quoted market price at the date of issuance, whichever is determined to be the more reliable measure. Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

**(i) Share-based payments**

The Company has a stock option plan that is described in note 8(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as capital stock and the related amount originally recorded in share-based payments reserve is transferred to capital stock. Upon expiry, related amounts are transferred from share-based payments reserve to deficit.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) Loss per share**

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share is performed by presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to re-purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of conversions or exercise of options and warrants if they would be anti-dilutive.

**(k) Deferred income taxes**

The Company follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, losses carried forward and other tax deductions. Deferred income tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income (loss) in the period in which the change is enacted or substantively enacted. The amount of deferred income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

**(l) Flow-through shares**

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares.

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through share premium"). Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through share premium will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

**(m) Financial instruments**

**(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* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in net income (loss).

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(m) **Financial instruments (continued)**

(i) Financial assets (continued)

*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 less any provision for 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.

*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. Any changes to the carrying amount of the investment, including impairment losses, are recognized in net income (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 in other comprehensive income as a component of equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized net income (loss).

All financial assets, except for those classified as FVTPL, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

(ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories. The Company's accounting policy for each category is as follows:

*FVTPL* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the net income (loss).

*Other financial liabilities* - This category includes accounts payables and accrued liabilities, all of which are recognized at amortized cost.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(m) **Financial instruments** (continued)

(iii) Fair value hierarchy

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs, other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 Unobservable inputs that are not based on observable market data.

**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company has classified its financial instruments as follows:

- Cash and cash equivalents, as FVTPL;
- Accounts receivable (excluding taxes receivable), as loans and receivables;
- Deposits for reclamation, as held-to-maturity; and
- Accounts payable and accrued liabilities, as other financial liabilities.

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of reclamation deposits approximates fair value since amounts held earn interest at market rates.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

(a) **Credit risk**

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations and arises principally from the Company's holdings of cash and cash equivalents. The Company manages credit risk, in respect of cash and cash equivalents by holding these at two major Canadian financial institutions with strong investment grade ratings by a recognized agency. In regard to accounts receivable, the Company is not exposed to significant credit risk because the majority of the accounts receivable is due from the government.



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**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)**

(a) **Credit risk** (continued)

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as all amounts are held at a single major Canadian financial institution.

	<b>Mar 31,</b>		<b>Dec 31,</b>
	<b>2012</b>		<b>2011</b>
Cash held in bank accounts	\$ 1,376,614	\$	790,967
Term deposits	10,000,000		16,500,000
	<b>\$ 11,376,614</b>	<b>\$</b>	<b>17,290,967</b>

(b) **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company maintains sufficient cash and cash equivalents at March 31, 2012 in the amount of \$11,376,614 in order to meet short-term liabilities. At March 31, 2012, the Company had accounts payable and accrued liabilities of \$2,237,519, which have contractual maturities of 90 days or less.

(c) **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to interest rate risk, foreign currency risk, and other price risk as follows:

(i) Interest rate risk

The Company's cash and cash equivalents are held in bank accounts and earn interest at variable interest rates. Due to the short-term nature of these financial instruments and the prevailing interest rate environment, fluctuations in market rates do not have a significant impact on estimated fair values or cash flows as of March 31, 2012.

(ii) Foreign currency risk

The Company's operations are located in Canada with substantially all transactions denominated in Canadian dollars and, accordingly, the Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk with respect to its financial instruments as their fair values and future cash flows are not impacted by fluctuations in market prices.

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**5. CAPITAL MANAGEMENT**

The Company's primary source of funds has been obtained through the issuance of capital stock. The Company does not use other sources of financing that require fixed payments of interest and principal, and is not subject to any externally imposed capital requirements.

The Company defines its capital as all components of shareholders' equity. Capital requirements are determined by the Company's exploration activities on its mineral property interests and administrative overhead. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet strategic goals.

In accordance with its investment policy, the Company invests periodically its capital in liquid investments to obtain returns that are considered reasonable under prevailing market conditions. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Although the Company has been successful at raising funds in the past through the issuance of capital stock, there can be no assurances that it will continue into the future.

There were no changes in the Company's approach to capital management during the period ended March 31, 2012.

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**6. MINERAL PROPERTIES**

Acquisition and exploration expenditures incurred on mineral properties are as follows:

	Spanish Mountain	SHG	Cedar Creek	Total
Balance, December 31, 2010	\$ 46,761,050	\$ 4,846,620	\$ 523,535	\$ 52,131,204
Additions during the year				
Acquisition cost	73,935	-	110,000	183,935
Mineral deposit studies	733,196	-	-	733,196
Deferred exploration costs				
Assaying	1,505,449	127,921	437,990	2,071,360
First Nations Comm Relations	263,214	-	-	263,214
Camp materials & supplies	271,073	3,097	98,825	372,994
Contract wages	368,702	-	352,234	720,936
Drilling	2,402,982	-	1,861,992	4,264,974
Environmental assessment	1,154,754	-	-	1,154,754
Engineering	55,130	-	-	55,130
Geological consulting	455,198	43,014	95,861	594,073
Geophysical consulting	1,575	37,393	6,101	45,070
Land tenure	40,053	32,823	-	72,876
Maps & reports	338,385	-	-	338,385
Travel & accomodation	104,629	5,495	7,358	117,483
Soil Sampling	-	78,742	2,067	80,809
Amortization	61,514	-	-	61,514
Total additions during the period	7,829,789	328,485	2,972,428	11,130,702
BC METC receivable (note 8)	(283,120)	(35,976)	(323,782)	(642,877)
Net additions	7,546,669	292,509	2,648,647	10,487,825
Balance, December 31, 2011	\$ 54,307,719	\$ 5,139,129	\$ 3,172,181	\$ 62,619,030
Additions during the year				
Acquisition cost	51,000	-	-	51,000
Mineral deposit studies	457,528	-	-	457,528
Deferred exploration costs				
Assaying	609,457	-	25,601	635,058
First Nations Comm Relations	324,780	-	-	324,780
Camp materials & supplies	113,245	-	6,572	119,817
Contract wages	222,033	-	10,696	232,729
Drilling	1,235,555	-	-	1,235,555
Environmental assessment	356,164	-	-	356,164
Equipment rental	28,833	-	12,235	41,067
Geological consulting	214,506	7,995	5,513	228,014
Land tenure	5,271	2,145	-	7,416
Maps & reports	45,404	-	-	45,404
Travel & accomodation	29,228	-	-	29,228
Amortization	13,378	-	-	13,378
Total additions during the period	3,706,382	10,140	60,617	3,777,139
BC METC receivable (note 9)	(851,233)	-	(16,263)	(867,496)
Net additions	2,855,148	10,140	44,355	2,909,643
Balance, March 31, 2012	\$ 57,162,868	\$ 5,149,269	\$ 3,216,536	\$ 65,528,673

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**6. MINERAL PROPERTIES (Continued)**

**(a) Spanish Mountain Property, British Columbia**

Pursuant to the purchase agreement for the Spanish Mountain property located in British Columbia, the Company's remaining obligation of \$51,000, was paid on January 20, 2012. The property is subject to various net smelter returns ("NSR") at 2.5%. The Company may, at its option, reduce the NSR to 1% or 1.5% dependent on the underlying mineral claims with a maximum aggregate payment of \$1,000,000 to the vendors.

**(b) SHG, Cariboo Mining Division, British Columbia**

On July 26, 2006, the Company purchased 100% of five mineral properties to the northwest of the Spanish Mountain property in central British Columbia. The vendor retains a 2% NSR, 1% of which may be purchased by the Company for \$1,000,000.

**(c) Cedar Creek Property, British Columbia**

On June 15, 2010, the Company acquired a 100% undivided interest in the Cedar Creek Property. The wholly owned property is subject to a 2.5% NSR in favour of a third party. The NSR may be purchased by the Company for \$500,000 per 1% NSR. On May 23, 2011, the Company acquired two additional mineral claims that are adjacent to the Cedar Creek Property for \$110,000 cash. The claims are subject to a 3% NSR, 2.5% of which may be purchased for \$1,000,000.

**(d) Title to mineral property interests**

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

**(e) Realization of assets**

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

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**6. MINERAL PROPERTIES (Continued)**

**(f) Environmental**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

**7. PROPERTY AND EQUIPMENT**

	<b>Land</b>	<b>Building</b>	<b>Computer Equipment</b>	<b>Field Equipment</b>	<b>Vehicles</b>	<b>Office Equipment</b>	<b>Total</b>
<b>Cost</b>							
Balance, December 31, 2011	\$ 127,441	\$ 1,132,543	\$ 146,035	\$ 62,763	\$ 41,536	\$ 17,968	\$ 1,528,286
Additions	-	(19,804)	8,550	24,620	-	-	13,366
<b>Balance, March 31, 2012</b>	<b>\$ 127,441</b>	<b>\$ 1,112,740</b>	<b>\$ 154,585</b>	<b>\$ 87,383</b>	<b>\$ 41,536</b>	<b>\$ 17,968</b>	<b>\$ 1,541,652</b>
<b>Accumulated Amortization</b>							
Balance, December 31, 2011	\$ -	\$ 186,086	\$ 58,017	\$ 22,690	\$ 27,665	\$ 11,547	\$ 306,005
Additions	-	9,267	7,161	3,072	1,040	321	20,860
<b>Balance, March 31, 2012</b>	<b>\$ -</b>	<b>\$ 195,353</b>	<b>\$ 65,177</b>	<b>\$ 25,762</b>	<b>\$ 28,705</b>	<b>\$ 11,868</b>	<b>\$ 326,865</b>
<b>Carrying Amounts</b>							
At December 31, 2011	\$ 127,441	\$ 946,457	\$ 88,018	\$ 40,073	\$ 13,871	\$ 6,421	\$ 1,222,280
<b>At March 31, 2012</b>	<b>\$ 127,441</b>	<b>\$ 917,387</b>	<b>\$ 89,407</b>	<b>\$ 61,621</b>	<b>\$ 12,831</b>	<b>\$ 6,100</b>	<b>\$ 1,214,786</b>

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**8. CAPITAL STOCK**

**(a) Authorized**

- (i) Unlimited number of common voting shares without par value
- (ii) Unlimited number of first preferred shares
- (iii) Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

**(b) Private placements**

- (i) On July 13, 2011, the Company completed a private placement and issued 33,333,328 units at a price of \$0.60 per unit for total gross proceeds of \$20,000,000. Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant entitling the holder to acquire an additional common share of the Company at a price of \$0.70 per share for a period of two years. Cash share issue costs in the amount of \$504,545 were incurred by the Company in connection with this private placement.
- (ii) On March 9, 2011, the Company completed a private placement and issued 6,410,257 flow-through shares at a price of \$0.78 per share for gross proceeds of \$5,000,000. Cash share issue costs in the amount of \$220,487 were incurred. The Company allocated \$3,397,436 (before share issue costs) to capital stock and \$1,602,564 to a flow-through share premium.

**(c) Stock options**

The Company has a fixed number stock option plan that reserves a specified number of shares up to a maximum of 20% of the Company's issued shares as at the date of shareholder approval. The maximum number of options that has been approved by the Company's shareholders is 17,401,903. The exercise price of any option granted shall not be less than the fair market value of the shares at the time of the grant. The expiry date for each option, set by the board of directors at the time of issue, shall not be more than five years after the grant date. Unless stipulated by the Board of Directors, options granted generally vest 25% on date of grant and a further 25% vest every six months.

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**8. CAPITAL STOCK (Continued)**

(c) **Stock options** (continued)

Changes in the Company's stock options during the year are summarized as follows:

	<b>March 31, 2012</b>		<b>December 31, 2011</b>	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	9,315,700	\$ 0.66	8,552,800	\$ 0.69
Granted	-	\$ -	2,895,000	\$ 0.73
Exercised	-	\$ -	(922,500)	\$ 0.33
Expired	(1,189,000)	\$ 1.22	(622,100)	\$ 1.39
Forfeited	(22,500)	\$ 0.25	(587,500)	\$ 1.15
Outstanding, end of period	8,104,200	\$ 0.58	9,315,700	\$ 0.66

A summary of the Company's stock options outstanding as at March 31, 2012 and December 31, 2011 is as follows:

Expiry Date	<b>March 31, 2012</b>		
	Exercise Price	Number of Options	Number of Options exercisable
January 10, 2012	\$ 1.22	-	-
April 17, 2012	\$ 1.56	82,000	82,000
April 23, 2012	\$ 0.42	150,000	150,000
May 28, 2012	\$ 1.49	164,000	164,000
June 5, 2012	\$ 1.59	213,200	213,200
December 11, 2012	\$ 1.25	300,000	300,000
March 8, 2013	\$ 0.43	150,000	150,000
November 17, 2013	\$ 0.85	100,000	25,000
June 29, 2014	\$ 0.25	900,000	900,000
October 12, 2014	\$ 0.29	700,000	700,000
January 5, 2015	\$ 0.28	150,000	150,000
January 27, 2015	\$ 0.36	400,000	400,000
February 9, 2015	\$ 0.36	300,000	300,000
February 17, 2015	\$ 0.37	1,100,000	1,100,000
August 23, 2015	\$ 0.45	600,000	600,000
March 9, 2016	\$ 0.65	1,170,000	877,500
March 31, 2016	\$ 0.65	300,000	225,000
September 20, 2016	\$ 0.82	1,325,000	662,500
		8,104,200	6,999,200

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**8. CAPITAL STOCK (Continued)**

(c) **Stock options (continued)**

Expiry Date	December 31, 2011		
	Exercise Price	Number of Options	Number of Options Exercisable
January 10, 2012	\$ 1.22	1,189,000	1,189,000
April 17, 2012	\$ 1.56	82,000	82,000
April 23, 2012	\$ 0.42	150,000	150,000
May 28, 2012	\$ 1.49	164,000	164,000
June 5, 2012	\$ 1.59	213,200	213,200
December 11, 2012	\$ 1.25	300,000	300,000
March 8, 2013	\$ 0.43	150,000	150,000
November 17, 2013	\$ 0.85	100,000	25,000
June 29, 2014	\$ 0.25	922,500	922,500
October 12, 2014	\$ 0.29	700,000	700,000
January 5, 2015	\$ 0.28	150,000	150,000
January 27, 2015	\$ 0.36	400,000	400,000
February 9, 2015	\$ 0.36	300,000	300,000
February 17, 2015	\$ 0.37	1,100,000	1,100,000
August 23, 2015	\$ 0.45	600,000	450,000
March 9, 2016	\$ 0.65	1,170,000	585,000
March 31, 2016	\$ 0.65	300,000	150,000
September 20, 2016	\$ 0.82	1,325,000	331,250
		9,315,700	7,361,950

The weighted average remaining contractual life of outstanding options is 2.93 years (2011 - 2.78 years).

(d) **Share purchase warrants**

The Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding December 31, 2011	Outstanding March 31, 2012
\$0.23	Sep 28, 2012	11,721,030	11,721,030
\$0.33	Dec 30, 2012	5,670,000	5,670,000
\$0.42	Feb 9, 2013	15,087,000	15,087,000
\$0.70	Jul 13, 2011	16,666,660	16,666,660
		49,144,690	49,144,690



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**8. CAPITAL STOCK (Continued)**

**(e) Share-based payments**

The fair value of stock options granted is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Risk-free interest rate	2.21%	2.76%
Expected dividend yield	-	-
Expected stock price volatility	94.17%	94.15%
Expected life in years	5.00	5.00
Expected forfeitures	0.00%	0.00%

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**9. INCOME TAXES**

Effective January 1, 2012, the Canadian federal corporate tax rate decreased from 16.5% to 15% and the British Columbia provincial tax rate remains unchanged at 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 26.5% to 25%.

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Deferred income tax assets		
Property and equipment	\$ 105,784	\$ 100,569
Non-refundable mining income tax credit	1,005,828	803,412
Share issue costs	206,727	234,656
Non-capital loss carried forward	3,300,599	3,103,335
	<u>4,618,938</u>	<u>4,241,972</u>
Deferred income tax liabilities		
Mineral properties	(7,586,738)	(7,583,394)
	<u>(7,586,738)</u>	<u>(7,583,394)</u>
Deferred income tax liability, net	<u>\$ (2,967,801)</u>	<u>\$ (3,341,422)</u>

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined under the Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances that are allotted for such expenditure but have not yet been spent. As at March 31, 2012, the Company has fulfilled its obligation and renounced \$5,000,000 in qualified exploration expenditures in connection with the flow-through offering completed on March 9, 2011 (note 8(b)). As a result the Company has recorded a deferred income tax recovery of \$352,564 in 2011 reversing its flow-through share premium liability created at the time of issuance.

The Company qualifies for BC Mineral Exploration Tax Credits ("METC"), as it has incurred qualified mineral exploration expenditures for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred.

As at March 31, 2012, the Company has recorded a BC METC receivable of \$2,341,587 of which \$867,496 is accrued for qualified exploration expenditures incurred during the period ended March 31, 2012. The amount ultimately recoverable may be different from the amount claimed once an audit by the taxation authorities is completed.

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**9. INCOME TAXES (Continued)**

The Company's unrecognized tax losses have the following expiry dates:

	<b>Spanish Mountain</b>	<b>Wildrose</b>	<b>Total</b>
Non-capital losses, expiring as follows:			
2014	\$ 155,289	\$ -	\$ 155,289
2015	614,077	168,000	782,077
2026	723,138	15,622	738,760
2027	861,641	-	861,641
2028	1,723,029	136,921	1,859,950
2029	1,410,811	55,965	1,466,776
2030	3,606,202	47,730	3,653,932
2031	2,207,355	25,888	2,233,243
	<b>\$ 11,301,542</b>	<b>\$ 450,126</b>	<b>\$ 11,751,668</b>

**10. RELATED PARTY TRANSACTIONS**

- (a) The Company obtains technical and strategic advice from a consulting firm, of which a director is a shareholder. During the period ended March 31, 2012, the Company paid a total of \$54,000 (2011 - \$nil) to this consulting firm. Accounts payable and accrued liabilities as at March 31, 2012 includes \$20,265 (December 31, 2011 - \$20,408) owed to the consulting firm.
- (b) The Company has retained a UK-based firm to provide marketing and administrative support in connection with activities associated with its substantial European shareholder base. A director of the Company is also a director and major shareholder of the UK-based firm. For the period ended March 31, 2012, the Company paid \$59,633 (2011 - \$19,888) for services rendered. Accounts payable and accrued liabilities as at March 31, 2012 includes \$39,926 (December 31, 2011 - \$40,552) owed to the firm.
- (c) Accounts payable and accrued liabilities as at March 31, 2012 includes \$40,939 (December 31, 2011 - \$61,703) owed to key management for reimbursements of expenses.
- All amounts due to related parties have repayment terms similar to the Company's other accounts payable. Interest is not charged on outstanding balances.
- (d) Key management comprises directors and executive officers. Certain executive officers are entitled to termination benefits equal to up to two years' gross salary totalling to \$740,000 in the event of a change of control. The Company has no post-employment benefits and other long-term employee benefits.

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**10. RELATED PARTY TRANSACTIONS (Continued)**

- (e) Compensation of key management personnel for the period ended March 31, 2012 and 2011 is summarized as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2012</b>	<b>2011</b>
Salaries and benefits	286,167	209,839
Share-based payments	186,725	247,086
	<b>\$ 472,892</b>	<b>\$ 456,925</b>

Key management personnel were not paid any termination benefits during the period ended March 31, 2012 (2011 - \$nil).

**11. SEGMENTED INFORMATION**

The Company has one operating segment, mineral exploration, and all of its long-term assets are located in Canada.

**12. COMMITMENTS**

Commitments not disclosed elsewhere in these consolidated financial statements are as follows. The Company's minimum combined lease payments for office premises and equipment for the next five years are as follows:

2012 (remainder of year)	\$ 141,744
2013	204,486
2014	189,976
2015	175,764
2016	171,971
	<b>\$ 883,939</b>

The Company entered into a lease agreement that commences June 1, 2012 and expires May 31, 2017. The total lease payment pursuant to the agreement is \$779,844.

Commitments related to mineral properties are disclosed in note 6.

**13. EVENTS AFTER THE REPORTING PERIOD**

The following events occurred after March 31, 2012.

- (a) 232,000 stock options with a weighted average exercise price of \$0.82 expired.
- (b) On April 11, 2012 and April 23, 2012, the Company granted 1,000,000 and 2,350,000 stock options with an exercise price of \$0.44 and \$0.55 respectively expiring in five years.