



Evolving Gold Corp.
Condensed Consolidated Interim Financial Statements
Three Months Ended June 30, 2011

Expressed in United States Dollars

Consolidated Statements of Financial Position as at June 30, 2011, March 31, 2011, and April 1, 2010

Consolidated Statements of Comprehensive loss for the three months ended June 30, 2011 and 2010

Consolidated Statements of Changes in Equity for the three months ended June 30, 2011 and 2010

Consolidated Statements of Cash Flows for the three months ended June 30, 2011 and 2010

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has 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 interim financial statements by an entity's auditor.

Evolving Gold Corp.
Consolidated statements of financial position
(Expressed in United States and Canadian dollars – unaudited)

	Notes	June 30, 2011 (US Dollars)	March 31, 2011 (US Dollars) (Note 17)	April 1, 2010 (US Dollars) (Note 17)	April 1, 2010 (CDN Dollars) (Notes 2 and 17)
ASSETS					
Current assets					
Cash and cash equivalents	3	\$ 4,861,285	\$ 8,491,743	\$14,552,776	\$14,789,407
Marketable Securities	4	239,901	329,883	171,046	173,827
GST/HST recoverable	6	31,942	75,179	51,278	52,112
Other receivables	6	58,208	-	2,705	2,749
Prepaid expenses		99,863	98,306	308,860	313,882
Current assets held for sale	16	4,202,456	2,633,267	-	-
		9,493,655	11,628,378	15,086,665	15,331,977
Non-current assets					
Restricted cash	5	658,028	653,944	625,000	634,375
Equipment and leasehold improvements	7	137,460	147,031	207,034	210,400
Exploration and evaluation properties	8	41,754,538	38,259,639	24,941,483	25,540,173
Long-term assets held for resale	16	3,400,760	2,376,548	-	-
		45,950,786	41,437,162	25,773,517	26,384,948
TOTAL ASSETS		\$ 55,444,441	\$ 53,065,540	\$40,860,182	\$41,716,925
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		\$ 867,626	\$ 930,299	\$ 1,095,664	\$ 1,113,480
Current liabilities held for sale	16	101,523	274,715	-	-
		969,149	1,205,014	1,095,664	1,113,480
Non-current liabilities					
Asset retirement obligation	9	302,000	302,000	262,257	266,521
Warrant liability		532,926	1,288,539	4,130,404	-
		834,926	1,590,539	4,392,661	266,521
TOTAL LIABILITIES		1,804,075	2,795,553	5,488,325	1,380,001
Non-controlling interest		4,052,635	2,386,439	-	-
SHAREHOLDERS' EQUITY					
Share capital	10	67,948,097	67,914,476	49,128,677	52,260,832
Reserves	11,17	14,976,791	13,632,415	10,565,863	15,344,482
Deficit		(34,574,188)	(33,794,160)	(24,309,130)	(27,254,617)
Accumulated other comprehensive income	17	1,237,028	130,817	(13,553)	(13,773)
TOTAL EQUITY		49,587,731	47,883,548	35,371,857	40,336,924
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 55,444,441	\$ 53,065,540	\$ 40,860,182	\$41,716,925

See accompanying notes to the condensed consolidated interim financial statements

Evolving Gold Corp.
Consolidated statements of comprehensive loss
(Expressed in United States and Canadian dollars – unaudited)

	Notes	Three month periods ended		
		June 30, 2011 (US Dollars)	June 30, 2010 (US Dollars) (Note 17)	June 30, 2010 (CDN Dollars) (Note 17)
Expenses				
Accounting and audit		\$ 3,604	\$ 53,442	\$ 52,200
Amortization	7	17,553	46,278	45,202
Bank charges and interest		825	2,014	1,967
Consulting		35,249	78,973	77,137
Directors fees		40,863	38,725	37,825
Legal		416	90,626	88,519
Management fees		168,552	367,881	359,329
Office, rent and salaries	12	190,110	170,445	166,483
Promotion and advertising		71,631	177,727	173,595
Property investigation costs		-	15,559	15,197
Stock based payments		271,463	934,887	913,154
Transfer agent and filing fees		39,232	7,888	7,705
Travel		7,513	49,387	48,239
		(847,011)	(2,031,802)	(1,986,552)
Other items				
Interest income		30,925	27,922	27,273
Foreign exchange		117,414	109,096	106,560
Property write down		-	(2,063,531)	(2,015,561)
Loss from operations		(698,672)	(3,960,345)	(3,868,280)
Discontinued operations		(81,353)	-	-
Net loss		\$ (780,025)	\$ (3,960,345)	\$ (3,868,280)
Unrealized loss on marketable securities		(109,604)	-	-
Unrealized gain on foreign exchange		1,207,647	-	-
Comprehensive loss (gain) for the period		\$ 318,018	\$ (3,960,345)	\$ (3,868,280)
Loss per share – basic and diluted		\$ (0.01)	\$ (0.04)	\$ (0.04)

Evolving Gold Corp.
Consolidated statements of shareholder's equity
(Expressed in United States dollars – unaudited)

	Notes	Share capital		Reserves			Accumulated Other Comprehensive Income	Total
		Number of shares	Amount	Stock option reserve	Warrant reserve	Deficit		
Restated balance at April 1, 2011	13	128,580,445	\$ 67,914,476	\$ 6,600,593	\$ 8,104,735	\$ (33,794,160)	\$ 130,817	\$ 47,883,584
Comprehensive income:								
Loss & comprehensive loss for the period		-	-	-	-	(780,025)	1,098,043	318,018
Transactions with owners, in their capacity as owners, and other transfers:								
Shares issued for cash – option exercise		93,000	33,621	-	-	-	-	33,621
Stock-based compensation		-	-	271,463	-	-	-	271,463
Restated balance at June 30, 2011		128,673,445	\$ 67,948,097	\$ 6,872,056	\$ 8,104,735	\$ (34,574,188)	\$ 1,237,028	\$ 49,587,731
Restated balance at April 1, 2010	13	106,661,581	\$ 49,128,677	\$ 6,591,532	\$ 3,974,331	\$ (24,309,130)	\$ (13,553)	\$ 35,371,857
Comprehensive income:								
Transactions with owners, in their capacity as owners, and other transfers:								
Shares issued for cash – options exercised		1,275,500	520,510	-	-	-	-	520,510
Transfer on option exercise		-	856,495	(856,495)	-	-	-	-
Loss & comprehensive loss for the period		-	-	-	-	(3,960,345)	1,148	(3,959,197)
Stock-based compensation		-	-	913,154	-	-	-	913,154
Restated balance at June 30, 2010		107,937,081	\$ 50,505,682	\$ 6,648,191	\$ 3,974,331	\$ (28,269,475)	\$ (12,405)	\$ 32,846,342

Evolving Gold Corp.
Consolidated statements of cash flows
(Expressed in United States and Canadian dollars – unaudited)

	Three month periods ended		
	June 30, 2011 (US dollars)	June 30, 2010 (US dollars) (Note 17)	June 30, 2010 (CDN dollars) (Note 17)
Operating activities			
Loss	\$ (780,025)	\$ (3,958,650)	\$(3,954,973)
Adjustments for non-cash items:			
Amortization	17,553	46,278	45,202
Stock-based compensation	271,463	934,887	1,001,503
Write off of mineral properties	-	2,063,531	2,015,561
Unrealized gain on marketable securities	89,982	-	-
Unrealized foreign exchange gain	1,207,647	(131,250)	(128,201)
Unrealized change in net assets held for sale	(1,100,397)	-	-
Changes in non-cash working capital items:			
Accounts receivable	(14,971)	28,226	27,570
Prepaid expenses and deposits	(1,557)	130,357	127,327
Accounts payables and accrued liabilities	(62,673)	389,065	380,021
Net cash flows from (used in) operating activities	(372,978)	(497,557)	(485,990)
Investing activities			
Interest	(4,084)	(61,172)	(59,750)
Expenditures on exploration and evaluation assets	(3,494,899)	(3,269,960)	(3,193,944)
Expenditures on property, plant and equipment	(7,982)	(49,164)	(48,021)
Net cash flows from (used in) investing activities	(3,506,965)	(3,380,296)	(3,301,715)
Financing activities			
Proceeds on issuance of common shares - net of share issue costs	33,621	525,295	513,084
Net cash flows from (used in) financing activities	33,621	525,295	513,084
Increase (decrease) in cash and cash equivalents	(3,846,322)	(3,352,558)	(3,274,621)
Effect of exchange rates on cash holdings in foreign currencies	215,864	129,556	126,544
Cash and cash equivalents, beginning	8,491,743	15,141,395	14,789,407
Cash and cash equivalents, ending	\$ 4,861,285	\$ 11,918,394	\$ 11,641,330

1. Nature and continuance of operations

Evolving Gold Corp. (the "Company" or "Evolving") was incorporated as 6109527 Canada Ltd. on June 19, 2003, under the Canada Business Corporation Act and is in the business of acquiring, exploring and evaluating mineral properties. On September 30, 2003, the Company changed its name to Evolving Gold Corp. The Company is in the exploration stage and has interests in mineral properties located both in Canada and in the United States of America. Effective December 7, 2010, the common shares of the Company were listed on the Toronto Stock Exchange ("TMX") and trade under the symbol EVG.

The recoverability of carrying amounts for mineral properties and related deferred exploration and development costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral properties, the ability of the Company to obtain necessary financing to complete exploration and development, achievement of future profitable production or proceeds from the disposition thereof. The Company has not yet determined whether these properties contain ore reserves that are economically recoverable.

These unaudited condensed consolidated interim financial statements have been prepared on the assumption that the Company and its subsidiaries (the "Group") will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at June 30, 2011 the Company had not advanced any of its properties to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. Management intends to finance operating costs over the next twelve months with the private placement of common shares.

The head office, principal address and records office of the Company are located at 1166 Alberni Street, Suite 605, Vancouver, BC, Canada, V6E 3Z3. The Company's registered address is Suite 1500, 1055 west Georgia Street, Vancouver, BC V6E 4N7.

2. Significant accounting policies and basis of preparation

The financial statements were authorized for issue on September 12, 2011 by the directors of the Company.

Statement of compliance and conversion to International Financial Reporting Standards

The condensed consolidated interim financial statements of the Group have been prepared in accordance with accounting policies as prescribed under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements comply with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended March 31, 2011. However, this interim financial report, being the first IFRS financial report, provides selected significant disclosures that are required in the annual financial statements under IFRS. The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS are provided in Note 17.

2. Significant accounting policies and basis of preparation (cont'd)

Basis of preparation

The consolidated financial statements of the Group have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in United States dollars unless otherwise noted.

Consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Details of controlled entities are as follows:

	Province of incorporation	Percentage owned	
		June 30, 2011	June 30, 2010
Evolving Gold Corporation	USA	100%	100%
5210 Nunavut Ltd.	Nunavut	100%	100%
Exemplar Gold Corp.	Canada	100%	-
Prosperity Goldfields Corp.	Canada	29.5%	-

Prosperity Goldfields Corp. ("PPG") has been presented as a wholly owned subsidiary, with assets and liabilities held for sale, as the Company is the largest shareholder of PPG and have 100% control of the board of PPG. As such, the Company effectively controls the policies and activities of PPG.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the determination of the useful lives of property, plant and equipment, the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, the recognition and valuation of provisions for restoration and environmental liabilities, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

United States dollar presentation

The financial statements of the Group have been presented in United States dollars for the current quarter, and have been restated to United States dollars for any previous periods presented. This presentation more accurately reflects the functional currency of the major operating companies within the Group, and the currency in which the material assets, projects and liabilities of the Group are denominated.

2. Significant accounting policies and basis of preparation (cont'd)

Foreign currency translation

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in United States dollars which is the functional and presentation currency of the major operating subsidiary of the Company.

The functional currency of the company, PPG, and other non-operational subsidiaries of the Group is the Canadian dollar. However, the materiality of the transaction within these companies and the assets and liabilities in these companies are such that their effect on the consolidated position of the Group is nominal, with the possible exception of capital stock and warrant transactions.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Group has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

2. Significant accounting policies and basis of preparation (cont'd)

Share-based payments

The Group operates an employee stock option plan. 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 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 corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financial instruments

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. The Group does not have any derivative financial assets and liabilities, except that certain warrant exercisable into common shares of the Company are denominated in Canadian dollars. These warrants are considered to be a derivative financial liability, and are revalued at each period end.

2. Significant accounting policies and basis of preparation (cont'd)

Impairment of assets

The carrying amount of the Group's assets (which include property, plant and equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Income taxes

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2. Significant accounting policies and basis of preparation (cont'd)

Restoration and environmental obligations

The Group recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Group's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Group's estimates are now reviewed quarterly for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Group's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Group's accounting policy for exploration and evaluation assets.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income and comprehensive income during the financial period in which they are incurred. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Accounting standards issued but not yet effective

Amendments to IFRS 7 "Financial Instruments: Disclosures"

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This new standard is effective for annual periods beginning on or after January 1, 2013.

The Group has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

2. Significant accounting policies and basis of preparation (*cont'd*)

Accounting standards issued but not yet effective

In May 2011, the IASB issued the following standards which have not yet been adopted by the Corporation: IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 11, Joint Arrangements ("IFRS 11"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), IAS 27, Separate Financial Statements ("IAS 27"), IFRS 13, Fair Value Measurement ("IFRS 13") and amended IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRSs. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

3. Cash and cash equivalents

The components of cash and cash equivalents are as follows:

	June 30, 2011	March 31, 2011	April 1, 2010
Cash at bank	\$ 1,361,285	\$ 991,743	\$ 1,052,776
Guaranteed deposits	3,500,000	7,500,000	13,500,000
	\$ 4,861,285	\$ 8,491,743	\$ 14,552,776

4. Marketable Securities

The investment in marketable securities consisted of 400,000 shares and 200,000 warrants in a publicly traded exploration company which assumed the interest of the Fisher Canyon mineral property (Note 6(j)) for C\$100,000 of which C\$6,000 was attributed to the warrants and the remaining C\$94,000 was allocated to shares. In addition, the Company received 438,000 shares in the same public company which were acquired under the terms of a sale agreement of the Company's former interest in the Fisher Canyon mineral property option. A fair value cost of C\$87,600 was allocated to these shares based on the share price on the date of grant. One share purchase warrant was exercisable for an additional common share at a price of C\$0.40 per share until expiry on May 23, 2011. These warrants were valued using the Black-Scholes model assumptions of 1.05% risk-free interest rate, 1.50 years expected life, zero dividend yield and expected volatility rate of 75.67%.

At March 31, 2011 the fair market value of all the shares based on that day's share trading price was \$324,511 (C\$323,505). The fair market value of the warrants was estimated to be \$14,805 (C\$15,811) at March 31, 2011 using the Black-Scholes option pricing model assumptions of 3.0% (0.96%) risk-free interest rate, 0.15 (1.07) years expected life, zero dividend yield and expected volatility rate of 139% (100.22%). Accordingly, the Company has an unrealized gain of \$167,331 (2010: loss of \$13,773) on these shares as at March 31, 2011.

During the three month period ended June 30, 2011 the warrants expired unexercised. Accordingly the \$239,901 valuation is solely attributable to the shares held. The company experienced an unrealized loss during the quarter.

5. Restricted Cash

As a result of United States Federal and State Government environmental permitting requirements, effective May 22, 2009 the Company established a US\$600,000 irrevocable letter of credit in order to provide for future site restoration at the Company's Rattlesnake Hills mineral property. This letter of credit has been provided by the Company's bank on behalf of the Company and is secured by an interest-bearing deposit of \$658,028. The letter of credit can be cancelled once ninety days' notice has been provided but as the Company does not expect to cancel the facility the deposit is reflected as long-term restricted cash.

6. Accounts receivable

	June 30, 2011	March 31, 2011	April 1, 2010
Value-added tax receivables	\$ 31,942	\$ 75,179	\$ 51,278
Other receivables, including JV partners	58,208	-	2,705
	\$ 90,150	\$ 75,179	\$ 53,983

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7. Property, plant and equipment

	Office Furniture and Equipment	Computer Equipment	Leasehold Improvements	Exploration Vehicles	Total
Cost:					
At March 31, 2011	\$ 106,717	\$ 209,538	\$ 58,314	\$ 153,578	\$ 528,147
Additions	-	6,124	1,397	-	7,521
Disposals	(14,598)	(21,632)	-	-	(36,230)
At June 30, 2011	92,118	194,031	59,711	153,578	499,439
Depreciation:					
At March 31, 2011	(89,179)	(191,229)	(28,084)	(72,159)	(380,650)
Additions	(2,395)	(3,945)	(4,860)	(6,359)	(17,558)
disposal	14,598	21,632	-	-	36,230
At June 30, 2011	(76,976)	(173,542)	(32,944)	(78,518)	(361,978)
Net book value:					
At March 31, 2011	17,537	18,309	30,231	81,420	147,497
At June 30, 2011	\$ 15,143	\$ 20,489	\$ 26,768	\$ 75,061	\$ 137,460

	Office Furniture and Equipment	Computer Equipment	Leasehold Improvements	Exploration Vehicles	Total
Cost:					
At April 1, 2010	\$ 104,522	\$ 202,930	\$ 58,314	\$ 113,557	\$ 479,323
Additions	2,195	6,608	-	40,021	48,824
At March 31, 2011	\$ 106,717	\$ 209,538	\$ 58,314	\$ 153,578	\$ 528,147
Depreciation:					
At April 1, 2010	(66,540)	(148,543)	(8,153)	(41,417)	(264,652)
Additions	(22,639)	(42,686)	(19,931)	(30,742)	(115,998)
At March 31, 2011	(89,179)	(191,229)	(28,084)	(72,159)	(380,650)
Net book value:					
At April 1, 2010	37,982	54,687	50,161	72,140	214,761
At March 31, 2011	17,537	18,309	30,231	81,420	147,497

Evolving Gold Corp.
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8. Exploration and evaluation assets

	Boulder Valley	Carlin	Humboldt	Jake Creek	Malone	Rattlesnake	Total for three month period ended June 30, 2011	Total for year ended March 31, 2011
Acquisition costs								
Opening balance	\$ -	\$ 599,175	\$ 875,849	\$ -	\$ -	\$ 925,951	\$ 2,400,975	\$1,008,475
Additions	-	749,066	349,066	-	-	20,000	1,118,132	1,392,500
Deletions	-	-	-	-	-	-	-	-
	-	1,348,241	1,224,915	-	-	945,951	3,519,107	2,400,975
Deferred exploration costs								
Opening balance	1,551,726	7,606,940	1,724,658	908,787	833,900	22,339,723	34,965,734	22,591,511
Assays and reports	-	-	-	-	-	-	-	885,760
Drilling	-	1,473,256	282,484	21,122	-	-	1,776,862	9,845,059
Field expenses & other	1,609	88,920	45,411	20,681	506	55,080	212,207	851,444
Geological consulting	1,564	177,982	36,039	39,475	1,082	43,069	299,211	1,691,986
Geophysical/geological	-	-	-	-	-	-	-	534,976
Staking and recording	-	8,500	50,410	28,615	-	960	88,485	435,347
	1,554,899	9,355,598	2,139,002	1,018,680	835,488	22,438,832	37,342,499	34,965,734
Reclamation bonds	13,634	302,295	-	-	125,000	150,000	590,929	590,929
Asset Retirement Obligation	8,000	12,000	14,000	8,000	-	260,000	302,000	302,000
Write down of mineral properties	-	-	-	-	-	-	-	-
Balance, June 30, 2011	\$ 1,576,533	\$11,018,134	\$ 3,377,917	\$ 1,026,680	\$960,488	\$23,794,783	\$ 41,754,535	\$ 38,259,638

8. Exploration and evaluation assets (cont'd)

In September 2007, the Company signed a Letter of Intent to enter into an agreement with Newmont USA Limited, Newmont Capital Limited and Elko Land and Livestock Company (collectively "Newmont") concerning an exploration partnership on the Sheep Creeks, Boulder Valley, Carlin and Cottonwood Creek properties. A fifth property, identified as Susie Creek, has not had any activity to date and accordingly no interest in this property is reflected in these financial statements.

In addition, the Company acquired the Carlin and Humboldt Properties (note 6(e)), which are adjacent to, but do not form part of the Newmont properties noted above.

a) Boulder Valley Property

A Mineral Lease, Sublease and Agreement which was signed effective November 28, 2007 continues to govern the Company's interest in the Boulder Valley and Carlin mineral properties (note 6(c)). Under the terms of this Agreement, Newmont would lease or sublease to the Company its interest in certain lands, unpatented mining claims and fee interests in these areas, subject to a back-in right in exchange for the Company:

- Assuming all of Newmont's lease obligations insofar as they pertain to these project areas.
- Incurring exploration expenditures of US\$3,500,000 for each of the two properties for a total of \$7,000,000 over five years with 70% of such expenditures in direct drilling costs:
 - On or before November 28, 2008 – US\$200,000 (incurred);
 - On or before June 20, 2009 – US\$200,000 (incurred);
 - On or before November 28, 2009 – additional US\$600,000 (incurred);
 - On or before November 28, 2010 – additional US\$1,200,000 (incurred);
 - On or before November 28, 2011 – additional US\$2,000,000;
 - On or before November 28, 2012 – additional US\$2,800,000.

In the event Newmont or the Company acquires any interest in minerals within the Susie Creek project area, the Company will need to incur US\$3,500,000 in exploration expenditures over a similar five year period from the acquisition date then determined.

- Reimbursing Newmont for all payments and filings necessary to keep each property in good standing.
- Providing semi-annual reports to Newmont for each project area's work program and costs incurred.
- After six years, paying an annual rental on each project area, if \$750,000 was not incurred on exploration expenditures during the preceding lease year on that project area. Annual rental would be calculated at \$10 per acre, escalating by 5% each year.
- Paying a 3% to 5% sliding scale net smelter return ("NSR") royalty on production from each property less any underlying royalties, with a minimum of 2%.

Newmont can elect to terminate the agreement and enter into one or more joint venture agreements with the Company covering all or a portion of each project area.

8. Exploration and evaluation assets (cont'd)

Newmont may earn a 51% interest in each joint venture property by expending on the property 200% of the exploration expenditures made by the Company from the date of the agreement to the date Newmont elects to exercise its joint venture option and may elect to earn an additional 19% interest in the joint venture property by expending on the property an additional 150% of the Company's expenditures on the joint venture property.

The Company has the right to provide sixty days written notice at any time to surrender the agreement as to all or any part of this property.

If the Company decides to commence mineral production of the project area and Newmont elects not to exercise the joint venture option or elects not to complete its earn-in expenditures, Newmont would agree to sell its interest in the project area property to the Company.

b) Jake Creek Property

In December 2007, the Company increased its exploration activities in north-central Nevada and acquired additional claims near the Sheep Creeks area (the "Jake Creek property").

c) Carlin Property

The Carlin property also forms part of the Newmont Agreement aforementioned under the Boulder Valley property (Note 6(a)).

On January 11, 2010, the Company signed a ten-year surface lease agreement for the lands described as the Carlin property in exchange for cash of \$16,642 (US\$16,000) (paid) and US\$10,000 payable annually on January 11, 2011 and each year thereafter.

Prior to commencement of commercial production the Company is obligated to purchase the area for US\$2,000 per applicable acre. The agreement can be terminated by Evolving after thirty days written notice is provided and can be extended if certain conditions are met including providing compensation for surface area disturbance.

On March 29, 2010, the Company signed a purchase and royalty reservation agreement for a 50% undivided fee interest in additional lands on the Carlin property in exchange for cash of \$10,401 (US\$10,000), cash of \$195,251 (US\$190,000) paid on completion and the issue of non-interest bearing promissory notes for US \$1,200,000 payable in annual US\$300,000 instalments commencing May 27, 2011. Subsequent to year end the Company paid the first promissory note instalment of US \$300,000.

On April 13, 2010 the Company signed an additional purchase agreement for a 100% undivided fee interest in additional adjacent lands in exchange for cash paid on signing of \$10,401 (US\$10,000), cash of \$301,339 (US\$290,000) paid on completion and the issue of promissory notes for US\$2,200,000 payable in annual US\$550,000 instalments, commencing August 10, 2011.

In addition with respect to both the March 29, 2010 and the April 13, 2010 aforementioned agreements, the Company will be committed to pay up to 1.0% NSR royalty on production.

8. Exploration and evaluation assets (cont'd)

d) Humboldt Property

On March 29, 2010, the Company signed a purchase and royalty reservation agreement for a 50% undivided fee interest in additional lands on the Humboldt property in exchange for cash paid of \$15,602 (US\$15,000), cash of \$292,877 (US\$285,000) paid on completion, and the issue of non-interest bearing promissory notes for US\$2,800,000 payable in annual US\$700,000 instalments, commencing May 27, 2011. Subsequent to March 31, 2011, the Company paid the first promissory note instalment of US \$700,000.

At April 13, 2010 the Company also signed two other purchase agreements for a 100% undivided fee interest in additional adjacent lands in exchange for cash of \$20,802 (US\$20,000) paid, cash of \$498,768 (US\$480,000) paid on closing and the issue of non-interest bearing promissory notes for US\$1,800,000 and US\$3,200,000 payable in annual US\$450,000 and US\$800,000 instalments respectively, commencing August 10, 2011.

In addition with respect to both the March 29, 2010 and the April 13, 2010 aforementioned Humboldt agreements, the Company will be committed to pay up to 1.0% NSR on production.

e) Carlin and Humboldt Properties

On October 26, 2009 the Company signed a mineral lease and property option agreement comprising sixty-two unpatented mining claims located in Elko County, Nevada, part of the Humboldt property.

In addition on February 28, 2010 the Company signed a mineral lease and royalty buy down agreement comprising eight unpatented mining claims located adjacent to those Humboldt claims acquired in the aforementioned October 26, 2009 agreement.

Both agreements have a primary term of fifteen years and so long thereafter as exploration, development or mining is being conducted on the property but can be terminated at any time in whole or in part after the Company provides thirty days written notice. Pursuant to the terms of these two agreements the Company is required to pay:

Cash of \$26,003 (US\$ 25,000) (paid)

Advance royalty payments:

- \$10,562 (US\$ 10,000) (paid)
- \$12,660 (US\$ 12,500) (paid)
- US\$ 15,000 on October 26, 2011
- US\$ 17,500 on October 26, 2012
- US\$ 20,000 on October 26, 2013
- US\$ 25,000 on October 26, 2014 and

8. Exploration and evaluation assets (cont'd)

f) Carlin and Humboldt Properties – cont'd

- US\$25,000 consumer price index adjusted, to be paid annually on October 26, 2015 and each year thereafter for the duration of the lease

Advance royalty payments:

- US\$ 10,000 on February 28, 2011 to 2015 (paid US \$10,000)
- US\$ 15,000 on February 28, 2016 to 2020
- US\$ 20,000 on February 28, 2021 and
- US\$ 20,000 consumer price index adjusted, to be paid annually on February 28, 2021 and each year thereafter for the duration of the lease

Shares to be issued:

- 50,000 shares to be issued (or cash equivalent) by October 26, 2014
- 50,000 shares to be issued (or cash equivalent) by February 28, 2015
- 200,000 shares to be issued (or cash equivalent), at commencement of production.

Pay claim maintenance fees and filings to maintain the unpatented claims.

The agreements are subject to a royalty of 2.775% to 3% of net smelter returns which the Company can, with respect to the 8 unpatented claims, reduce to 2% with the payment of US\$1,000,000 for each 0.5% reduction.

Pursuant to the terms of the October 26, 2009 Agreement, the Company has the right to acquire ownership of the 62 unpatented claims (and royalty) in exchange for a cash payment of US\$4,000,000 subject to recoupment of any royalty payments made by the Company.

On April 13, 2010, the Company signed a ten year surface lease agreement for the lands in exchange for cash of \$44,207 (US\$42,503) on execution and on each anniversary thereafter if acreage is not decreased. The Company will also pay a onetime payment of US\$1,500 for each drill site and \$100 per acre per year for other surface disturbance if ranching and grazing is not possible. One half of these lands have been allocated to each of the Carlin and Humboldt properties.

On April 13, 2010 the Company signed two mineral lease agreements encompassing a total of 4,635.76 acres of additional lands in the Elko and Eureka counties in Nevada in exchange for cash paid for advance mineral royalties of \$57,960 (US\$55,725). One half of these lands have been allocated to each of the Carlin and Humboldt properties.

Future royalties will be payable annually based on the amount of acreage utilized but will be at least US\$20,000. The term of each lease is ten years which can be extended if certain conditions are achieved.

8. Exploration and evaluation assets (cont'd)

f) Carlin and Humboldt Properties – (cont'd)

Pursuant to the terms of both leases the Company can decrease the leased acreage or can otherwise terminate the lease after thirty days written notice is provided and has also been granted the right of first refusal to purchase either property. The agreements are subject to a non-participating production royalty of 5% of net smelter returns.

g) Rattlesnake Property

In July 2007, the Company entered into a Letter of Intent with Golden Predator Mines, Inc. and Golden Predator Mines (US) Inc. (collectively "GPM") for the acquisition of Golden Predator's mining option on a 100% interest in Bald Mountain Mining Company's ("BMM") Rattlesnake Hills mineral property located in Natrona County, Wyoming. The Company is required to make payments of US \$20,000 per year to the owners of the property as long as the Company continues to make option payments on this property.

On December 11, 2007, BMM signed an amended and restated Option Agreement with GPM with respect to BMM acquiring a 100% interest in this property. On January 15, 2008 a Letter of Agreement was signed to formalize the terms by which BMM would assign its interest in the amended and restated Rattlesnake Hills Option Agreement to the Company. Under the terms of the January 15, 2008 Letter of Agreement, the Company would acquire its interest in the property option from BMM in exchange for the issue of cash of \$196,100 (US\$200,000) (paid) and the issuance of 400,000 shares which were valued at the share trading price at the date of issuance.

On January 16, 2008, the Company signed a property option agreement with GPM. Under the terms of this Agreement, the Company could acquire up to a 100% interest in the Rattlesnake Hills Property in exchange for the issue of 3,000,000 shares to be issued in three separate tranches of 1,000,000 shares each, over approximately a two year period. A finder's fee was paid by the issue of 75,000 shares in connection with this transaction.

In February 2010, the Company exercised its option to complete the acquisition of 100% of the Rattlesnake Hills Property by issuing the final tranche of 1,000,000 shares to GPM. Each of the three 1,000,000 share issues has been valued at the share price at the date of its issuance.

As part of the agreement GPM will retain a 0.5% NSR royalty with respect to the property and the Company will have the option to purchase one-half of the NSR royalty for US\$375,000, reducing it to 0.25%. The property is currently subject to a 4% production royalty payable to the underlying owners and equal to the gross proceeds less a deduction for all milling, smelting, refining, treatment and other processing costs.

8. Exploration and evaluation assets (cont'd)

g) Rattlesnake Property – (cont'd)

Prior to the Company completing the acquisition of this mineral property option, GPM had the right to purchase up to 10% of the shares offered in private placements undertaken by the Company, such purchases to be at the same terms and conditions as other purchasers participating in the offering. Pursuant to these terms 1,000,000 units were issued to GPM in April, 2008 for proceeds of \$1,000,000 and an additional 1,234,578 units were issued as part of the November, 2009 private placement for proceeds of \$1,111,120. Each unit was comprised of one common share and one-half of a share purchase warrant. The 500,000 warrants attached to the April, 2008 unit have now expired.

On May 9, 2011, the Company announced that it has signed a Letter Agreement with a subsidiary of Agnico-Eagle Mines Ltd. to form a joint venture on its Rattlesnake Hills project in Wyoming. Under the terms of the Letter Agreement, Agnico-Eagle (USA) Ltd. (Agnico-Eagle) has the option to earn up to a 70% interest in the Rattlesnake Hills project by carrying Evolving Gold through completion of a feasibility study. In order to earn a 70% interest over a seven-year period Agnico-Eagle is required to make payments to EVG totalling US\$12 million, to purchase C\$23 million in the common shares of EVG, and to expend a minimum of US\$41 million on exploration/development work on the project.

A binding joint venture agreement was completed on June 24, 2011, with a drill program ensuing shortly after. Agnico-Eagle's minimum work expenditure for the first year is US\$3 million. The 2011 exploration program will include drilling extensions of the two main gold zones, drilling targets between these two zones, testing previously identified targets in the core area, and a regional program to define additional drill targets on the large Rattlesnake Hills property.

h) Malone Property

On April 17, 2006 the Company entered into a quitclaim deed and royalty agreement with Newmont North America Exploration Limited whereby the Company was granted all rights, title, estate and interest in unpatented mineral claims located in Lordsburg, New Mexico in exchange for cash paid of \$23,080 (US\$ 20,000). The agreement is subject to a royalty of 2% of net smelter returns.

The Company is considering what options might be available to lease or joint venture the property. The Company has incurred total deferred exploration and acquisition costs of \$951,540 on this property as at March 31, 2011, primarily on drilling and a reclamation cost provision.

8. Exploration and evaluation assets (cont'd)

l) Kiyuk Lake Property

On August 1, 2009 the Company signed a five year mineral property option agreement for the Kiyuk Lake property near Nueltin Lake in Nunavut. \$50,000 and 50,000 common shares were paid with respect to this agreement on August 8, 2009. Under the terms of the agreement, \$60,000 was to be paid and 40,000 common shares were to be issued in each of the remaining four years of the term.

On October 26, 2010, the Company transferred its interest in the Kiyuk Mineral Property to a wholly owned newly incorporated subsidiary, Prosperity Goldfields Ltd. See Note 16.

On October 28, 2010, Prosperity Goldfields Corp. entered into an amending letter agreement which revised the August 1, 2009 mineral property agreement to reflect the transfer of the interest in the Kiyuk property to Prosperity, and to revise certain financial terms. Under the amending letter agreement, the payments for each of the remaining four years of the agreement are \$60,000 cash and 20,000 Evolving Gold common shares and 60,000 Prosperity common shares. Prosperity will issue to the Company that number of common shares of Prosperity with an equivalent market value to the market value of the company's common share on the date of issue.

The agreement can be terminated by the Company after thirty days' notice is provided. The agreement is subject to a royalty of 2% of net smelter returns which the Company can reduce with the payment of US\$2,000,000 for each 1% reduction. Also pursuant to this agreement the Company is required to pay filing and maintenance fees and to provide a technical report annually to the vendor, the next report due before March 1, 2011 (paid and provided).

9. Asset retirement obligation

The Company has estimated the present value of its Rattlesnake Hills Mineral Property future reclamation obligation as legally required by the United States Federal and State Government permitting requirements. The increase in the asset retirement obligation since March 31, 2009 results from an increase in exploration activity on various properties. The Company intends to fulfil its site restoration obligations when required, most probably in the next fiscal year, and accordingly no discounted present value was calculated. Management will continue to assess asset retirement obligations as future exploration activity is undertaken.

The balances are as follows:

	June 30, 2011	March 31, 2011	April 1, 2010
Opening balance	\$ 302,000	\$ 220,000	\$ 220,000
Additions during the period	-	82,000	-
	<u>\$ 302,000</u>	<u>\$ 302,000</u>	<u>\$ 220,000</u>

10. Share capital

Authorized share capital

The authorized capital of the Company is an unlimited number of common shares without par value.

Changes to share capital during the year ended March 31, 2011, are summarized in the Consolidated Statement of Shareholders' Equity included in these financial statements.

Issued share capital

During the three month period ended June 31, 2011, the Company completed the following share related transactions:

- 93,000 shares were issued pursuant to the exercise of options during the quarter at various prices. Gross proceeds were \$33,621.

During the year ended March 31, 2011, the Company completed the following share related transactions:

- In July 2010, the Company completed a non-brokered private placement with Goldcorp Inc. for the issue of 19,047,721 common shares of the Company at a price of \$0.82 per share resulting in net proceeds to the Company of \$15,606,357. Pursuant to the terms of the private placement, Goldcorp Inc. has the right, subject to certain conditions, to participate in future equity financings and certain non-cash transactions undertaken by the Company in order to maintain its relative ownership interest in the Company, for a period of up to five years;
- 40,000 shares were issued pursuant to a property transaction at a quoted market price of \$0.77 per share on the date of issuance for a total value of \$30,800; At March 31, 2011 there were 68,304,183 issued and fully paid common shares (December 31, 2010 – 67,694,683); and
- 2,831,143 shares were issued pursuant to the exercise of options during the year at various prices. Gross proceeds were \$1,237,960. An additional \$2,223,906 was transferred to Share Capital from Stock Option Reserve to reflect the stock based compensation recorded on those options.

10. Share capital (cont'd)

Stock options

The Company established a share purchase option plan (the "Plan") in September 2004. In September, 2007 shareholder approval was obtained to adopt a "rolling" stock option plan. The Board of Directors administers the Plan, pursuant to which the Board of Directors may grant from time to time incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants or advisors. All options granted under the Plan shall expire not later than the tenth anniversary of the date the options were granted.

The exercise price of an option is determined by the Board of Directors, but shall not be less than the market price of the common shares of the Company on the TSX on the last business day before the date on which the options are granted, less any discount permitted by the rules of the exchange. Vesting and terms are at the discretion of the Board of Directors. The vesting of options range from vested immediately, a vesting period of three months to a two year period from the date of the grant, at 25% and 20% respectively. Options granted for Investor relations vest in accordance with TSX regulation.

The changes in options during the three month period ended June 30, 2011 and the year ended March 31, 2011 are as follows:

	June 30, 2011		March 31, 2011	
	Number of options	Weighted average exercise price (CDN \$)	Number of options	Weighted average exercise price (CDN \$)
Options outstanding, beginning of period	8,712,000	\$ 0.81	7,463,143	\$ 0.59
Options granted	-	-	4,880,000	0.95
Options exercised	(93,000)	0.35	(2,831,143)	0.44
Options cancelled	-	-	(200,000)	0.92
Options expired and forfeited	-	-	(600,000)	0.92
Options outstanding, end of period	8,619,000	\$ 0.81	8,712,000	\$ 0.81

No new options were granted during the three months ended June 30, 2011. During the year ended March 31, 2011, the Company granted options to directors, officers, employees and consultants as follows:

<u>Number of Options Granted</u>	<u>Exercise Price (CDN \$)</u>	<u>Vesting Provisions</u>
150,000	\$0.94	1/3 vested
500,000	\$0.93	70% vested
350,000	\$0.92	Fully vested
300,000	\$0.84	1/3 vested
350,000	\$0.94	1/2 vested
200,000	\$0.91	1/3 vested
430,000	\$1.14	1/3 vested
500,000	\$0.97	1/3 vested
1,600,000	\$0.94	1/3 vested
<u>500,000</u>	<u>\$0.90</u>	<u>1/3 vested</u>
<u>4,880,000</u>		

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10. Share capital (cont'd)

Stock options

Details of options outstanding as at June 30, 2011 are as follows:

Expiry Date	Exercise Price (Canadian \$)	June 30, 2011
May 2, 2012	\$0.42	300,000
September 21, 2012	\$0.40	125,000
September 21, 2012	\$0.35	25,000
November 28, 2012	\$0.80	270,000
January 23, 2013	\$0.88	225,000
March 4, 2013	\$0.35	25,000
November 30, 2014	\$1.25	1,180,000
April 11, 2015	\$0.94	150,000
April 21, 2015	\$0.93	500,000
May 21, 2015	\$0.92	350,000
July 25, 2015	\$0.94	350,000
November 3, 2015	\$0.91	200,000
December 2, 2015	\$1.14	430,000
January 24, 2016	\$0.97	500,000
February 1, 2016	\$0.94	1,600,000
March 14, 2016	\$0.90	500,000
November 14, 2018	\$0.17	1,100,000
January 15, 2019	\$0.35	350,000
April 15, 2019	\$0.35	89,000
May 26, 2019	\$0.42	350,000
		8,619,000

During the quarter the Company charged \$271,463 (2011: \$2,689,607; Q1 of 2011: \$827,866) to operations for stock-based compensation relating to options granted and/or vesting during the period. The weighted average fair value of the share purchase options granted during the year ended March 31, 2011 of \$0.55 per option (2010: \$0.52) is estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>2011</u>	<u>2011</u>
Average risk-free interest rate	1.77% - 2.43%	0.48% - 3.65%
Expected life	2 – 10 years	2 – 10 years
Expected volatility	111-123%	101-126%
Expected dividends	Nil	Nil

10. Share capital (cont'd)

Warrants

The changes in warrants during the three month period ended June 30, 2011 and the year ended March 31, 2011 are as follows:

	June 30, 2011		March 31, 2011	
	Number of warrants	Weighted average exercise price (CDN \$)	Number of warrants	Weighted average exercise price (CDN \$)
Warrants outstanding, beginning of period	6,263,630	\$ 1.23	6,172,889	\$ 1.25
Warrants issued	-	-	90,741	1.23
Warrants exercised	-	1.23	-	-
Warrants expired	-	-	-	-
Warrants outstanding, end of period	6,263,630	\$ 1.23	6,263,630	\$ 1.23

Pursuant to the terms of the Warrant indenture, the Company was required, as a result of the Prosperity Goldfields dividend, to adjust the exercise price and number of outstanding warrants. The warrant exercise price was reduced to \$1.23 and 90,741 warrants and 8,462 new agents' warrants were issued.

Accordingly, at March 31, 2011, there were 6,263,630 (2010: 6,172,889) share purchase warrants outstanding and exercisable entitling the holders thereof the right to purchase one common share for each warrant held:

As at June 30, 2011 and March 31, 2011, in addition to the warrants disclosed above, the Company also has 544,022 agents' warrants outstanding which entitle the Agent to purchase 544,022 units expiring November 24, 2011 at a price of \$1.23 per unit. Each unit will consist of one common share and one-half of one warrant exercisable at a price of \$1.23 for a period of 24 months from the issuance date.

Details of warrants outstanding as at June 30, 2011 are as follows:

Price (CDN \$)	Remaining Life	Number of warrants outstanding
\$1.23	0.40 years	6,263,630

Details of warrants outstanding as at March 31, 2011 are as follows:

Price (CDN \$)	Remaining Life	Number of warrants outstanding
\$1.23	0.65 years	6,263,630

11. Reserves

Stock option reserve

The stock option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to deficit.

Warrant reserve

The warrant reserve records items recognized as the value of warrants issued with respect to financings, until such time as the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to deficit.

12. Related party transactions

The Group incurred the following transactions with companies that are controlled by directors and officers of the Company.

	Three month periods ended	
	June 30, 2011	June 30, 2010
Consulting fees	\$ -	\$ 26,500
Directors fees	40,900	38,700
Management fees	168,500	367,900
Office rent	14,700	14,700
	\$ 224,100	\$ 447,800

Balances and transactions between the Group members have been eliminated on consolidation and are not disclosed in this note. The Group incurred the fees and expenses in the normal course of operations in connection with the companies owned by key management and directors. Expenses have been measured at the fair value of the transaction amount.

13. Segmented information

	Three months ended June 30, 2011		Year ended March 31, 2011		Year ended April 1, 2010	
	Canada	US	Canada	US	Canada	US
Mineral Properties	\$ -	\$ 41,754,538	\$ -	\$ 38,259,639	\$ 947,018	\$ 23,994,465
Other long-term assets	\$ 7,480	\$ 129,980	\$ 8,104	\$ 139,395	\$ 44,947	\$ 162,087
Long-term assets held for sale	\$ 3,400,760	\$ -	\$ 2,376,548	\$ -	\$ -	\$ -

14. Financial risk management

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in a bank account held with a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk is on its other receivables. This risk is minimal as receivables consist primarily of refundable government goods and services taxes.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group has a planning and budgeting process in place to help determine the funds required to support the Group's normal operating requirements on an ongoing basis. The Group ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Group's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Group's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The following is an analysis of the contractual maturities of the Group's non-derivative financial liabilities as at June 30, 2011:

	Within one year	Between one and five years	More than five years
Accounts payable and accrued liabilities	\$ 867,626	\$ -	\$ -
	\$ 867,626	\$ -	\$ -

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Group is not materially exposed to currency risk as it incurs expenditures that are primarily denominated in Canadian dollars.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its cash equivalents as these instruments have original maturities of three months or less and are therefore exposed to interest rate fluctuations on renewal. A 1% change in market interest rates would have an impact on the Group's net loss of \$5,000.

14. Financial risk management (cont'd)

Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Group consists of equity, comprising share capital, net of accumulated deficit.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to any externally imposed capital requirements.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	June 30, 2011	March 31, 2011
Cash and cash equivalents	\$ 4,861,285	\$ 8,491,743
Receivables	90,150	75,179
Prepaid expenses and deposits	99,863	98,306
	\$ 5,051,298	\$ 8,665,228

Financial liabilities included in the statement of financial position are as follows:

	June 30, 2011	March 31, 2011
Non-derivative financial liabilities:		
Accounts payable	\$ 867,626	\$ 930,299
	\$ 867,626	\$ 930,299

Fair value

The fair value of the Group's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

The following is an analysis of the Group's financial assets measured at fair value as at June 30, 2011 and March 31, 2011:

	As at June 30, 2011		
	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 4,861,285	\$ -	\$ -
	\$ 4,861,285	\$ -	\$ -
	As at March 31, 2011		
	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 8,491,743	\$ -	\$ -
	\$ 8,491,743	\$ -	\$ -

15. Non-cash transactions

During the three month period ended June 30, 2011 and 2010 the Group did not incur any other non-cash transactions.

16. Assets held for sale - Prosperity Goldfields Corp.

In late 2010, the Company transferred its \$1,417,959 interest in the Kiyuk Mineral Property to a wholly-owned newly incorporated subsidiary, Prosperity Goldfields Corp., and completed a dividend-in-kind transaction and prospectus resulting in the TSX Venture Exchange listing the Prosperity shares under the symbol "PPG".

All dividend shares had been issued to residents of Canada by March 3, 2011, and cheques for the cash proceeds resulting from the sale of non-resident dividend shares had been mailed by March 11, 2011. A total of 12,841,236 common shares of Prosperity were dividended by the Company. The Company holds 11,925,160 common shares of Prosperity, of which 8,943,870 common shares are held in escrow. One tenth of these shares were released from escrow on March 3, 2011 with the remaining shares being released from escrow at a rate of 1/6 each six month period beginning September 3, 2011.

As of March 31, 2011, the Company held approximately 49% of the common shares, and 100% of the warrants of PPG, and had a majority of directors in common. On April 6, 2011 PPG completed a private placement, resulting in further dilution of the Company's interest in PPG to 29.5% of PPG's issued and outstanding common shares. Subsequent to the quarter end, PPG completed another private placement. See note 18.

17. Transition to IFRS

As result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Group has adopted accounting policies in accordance with IFRS, these are the first interim financial statements of the Group under IFRS. The Group previously applied the available standards under previous Canadian GAAP that were issued by the Accounting Standards Board of Canada.

As required by IFRS 1 "First-time Adoption of International Financial Reporting Standards", April 1, 2010 has been considered to be the date of transition to IFRS by the Group. Therefore, the comparative figures that were previously reported under previous Canadian GAAP have been restated in accordance with IFRS.

Exemptions applied

The Group has applied the following optional transition exemptions to full retrospective application of IFRS:

- IFRS 3 "Business Combinations" has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before April 1, 2010.
- IFRS 2 "Share-based Payment" has not been applied 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 Group has elected not to apply IFRS 2 to awards that vested prior to April 1, 2010, which have been accounted for in accordance with Canadian GAAP.

Evolving Gold Corp.
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17. Transition to IFRS (cont'd)

Reconciliation of assets as of April 1, 2010

	Notes	Canadian GAAP (CDN \$)	Effect of Transition (CDN \$)	IFRS (CDN \$)	Effect of Transition (US \$)	IFRS (US \$)
ASSETS						
Current assets						
Cash	17a	\$14,789,407	\$-	\$14,789,407	\$ (236,631)	\$14,552,776
Marketable securities		173,827	-	173,827	(2,781)	171,046
GST receivable		52,112	-	52,112	(834)	51,278
Other receivable		2,749	-	2,749	(44)	2,705
Prepaid expense		313,882	-	313,882	(5,022)	308,860
		15,331,977	-	15,331,977	(245,312)	15,086,665
Non-current assets						
Restricted cash		634,375	-	634,375	(9,375)	625,000
Equipment		215,265	(4,865)	210,400	(3,366)	207,034
Exploration assets		26,943,626	(1,403,453)	25,540,173	(598,690)	24,941,483
TOTAL ASSETS		\$43,125,243	\$(1,408,318)	\$ 41,716,925	\$ (856,743)	\$ 40,860,182

Evolving Gold Corp.

Notes to the Condensed Consolidated Interim Financial Statements

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For the three month periods ended June 30, 2011 and 2010

17. Transition to IFRS (cont'd)

Reconciliation of liabilities and shareholders' equity as of April 1, 2010

	Notes	Canadian GAAP (CDN \$)	Effect of Transition (CDN \$)	IFRS (CDN \$)	Effect of Transition (US \$)	IFRS (US \$)
Current liabilities						
Accounts payable	17a	\$1,113,480	\$ -	\$1,113,480	\$ (17,816)	\$1,095,664
Asset retirement liability		266,521	-	266,521	(4,264)	262,257
Warrant liability	17d	-	-	-	4,130,404	4,130,404
		1,380,001	-	1,380,001	4,108,324	5,488,325
Non-controlling interest		-	-	-	-	-
Share capital		56,458,397	(4,197,565)	52,260,832	(3,132,155)	49,128,677
Contributed surplus		11,232,205	(11,232,205)	-	-	-
Reserves	17e	-	15,344,482	15,344,482	(4,778,619)	10,565,863
Retained Earnings		(25,931,587)	(1,323,030)	(27,254,617)	2,945,487	(24,309,130)
Accumulated other comprehensive income		(13,773)	-	(13,773)	220	(13,553)
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		\$43,125,243	\$(1,408,318)	\$ 41,716,925	\$ 856,743	\$ 40,860,182

Evolving Gold Corp.

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17. Transition to IFRS (cont'd)

Reconciliation of assets as of June 30, 2010

	Notes	Canadian GAAP (CDN \$)	Effect of Transition (CDN \$)	IFRS (CDN \$)	Effect of Transition (US \$)	IFRS (US \$)
ASSETS						
Current assets						
Cash	17a	\$11,641,330	\$ -	\$11,641,330	\$ 277,066	\$11,918,394
Marketable securities		175,483	-	175,483	4,176	179,659
GST receivable		25,162	-	25,162	599	25,761
Other receivable		2,129	-	2,129	51	2,180
Prepaid expense		186,555	-	186,555	4,440	190,995
		12,030,659	-	12,030,659	(286,330)	12,316,989
Non-current assets						
Restricted cash		694,125	-	694,125	(40,181)	653,944
Equipment		218,084	(4,865)	213,219	5,075	218,294
Exploration assets		28,202,548	(1,403,453)	26,799,095	2,074,674	28,873,769
TOTAL ASSETS		\$41,145,416	\$(1,408,318)	\$ 39,737,098	\$ 2,325,897	\$ 42,062,995

Evolving Gold Corp.

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For the three month periods ended June 30, 2011 and 2010

17. Transition to IFRS (cont'd)

Reconciliation of liabilities and shareholders' equity as of June 30, 2010

	Notes	Canadian GAAP (CDN \$)	Effect of Transition (CDN \$)	IFRS (CDN \$)	Effect of Transition (US \$)	IFRS (US \$)
Current liabilities						
Accounts payable	17a	\$1,493,500	\$ -	\$1,493,500	\$ 35,545	\$1,529,045
Asset retirement liability		347,060	-	347,060	8,260	355,320
Warrant liability	17d	-	-	-	2,264,572	2,264,572
		1,840,560	-	1,840,560	2,308,377	4,184,937
Non-controlling interest		-	-	-	-	-
Share capital		57,803,523	(4,197,565)	53,605,958	(3,102,276)	50,505,682
Contributed surplus		11,401,666	(11,401,666)	-	-	-
Reserves	17e	-	15,425,594	15,425,594	(2,993,899)	12,431,695
Retained Earnings		(29,888,216)	(1,234,216)	(31,122,897)	2,853,422	(28,269,475)
Accumulated other comprehensive income		(12,117)	-	(12,117)	(288)	(12,405)
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		\$39,304,856	\$(1,408,318)	\$ 39,737,098	\$ 2,325,897	\$ 42,062,995

Evolving Gold Corp.

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17. Transition to IFRS (cont'd)

Reconciliation of assets as of March 31, 2011

	Notes	Canadian GAAP (CDN \$)	Effect of Transition (CDN \$)	IFRS (CDN \$)	Effect of Transition (US \$)	IFRS (US \$)
ASSETS						
Current assets						
Cash	17a	\$8,734,564	\$-	\$8,734,564	\$ (242,821)	\$8,491,743
Marketable securities		339,316	-	339,316	(9,433)	329,883
GST receivable		77,329	-	77,329	(2,150)	75,179
Other receivable		-	-	-	-	-
Prepaid expense		101,117	-	101,117	(2,811)	98,306
Current assets held for sale		2,708,565	-	2,708,565	(75,298)	2,633,267
		11,960,891	-	11,960,891	(332,513)	11,628,378
Non-current assets						
Restricted cash		635,765	-	635,765	18,179	653,944
Equipment		154,835	(4,865)	149,970	(2,939)	147,034
Exploration assets		40,772,602	(1,403,453)	39,369,149	(1,109,510)	38,259,639
Long term assets held for sale		2,444,505	-	2,444,505	(67,957)	2,376,548
TOTAL ASSETS		\$55,968,598	\$(1,408,318)	\$ 54,560,280	\$ (1,494,740)	\$ 53,065,540

Evolving Gold Corp.

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For the three month periods ended June 30, 2011 and 2010

17. Transition to IFRS (cont'd)

Reconciliation of liabilities and shareholder's equity as of March 31, 2011

	Notes	Canadian GAAP (CDN \$)	Effect of Transition (CDN \$)	IFRS (CDN \$)	Effect of Transition (US \$)	IFRS (US \$)
Current liabilities						
Accounts payable	17 a	\$956,901	\$ -	\$956,901	\$ (26,602)	\$930,299
Asset retirement liability		297,802	-	297,802	4,198	302,000
Warrant liability	17d	-	-	-	1,288,539	1,288,539
Liabilities held for sale		282,570	-	282,570	(7,855)	274,715
		1,537,273	-	1,537,273	1,258,280	2,795,553
Share capital		75,557,420	(4,197,165)	71,359,855	(3,445,379)	67,914,476
Contributed surplus		11,697,906	(11,697,906)	-	-	-
Reserves	17e	-	15,572,916	15,572,916	(867,608)	14,705,308
Non-controlling interest		2,454,679	-	2,454,679	(68,240)	2,386,439
Retained Earnings		(35,413,238)	(1,085,763)	(36,499,001)	2,945,487	(33,794,160)
Accumulated other comprehensive income		134,558	-	134,558	(3,741)	130,817
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		\$55,968,598	\$(1,408,318)	\$ 54,560,280	\$ (1,494,740)	\$ 53,065,540

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17. Transition to IFRS (cont'd)

Reconciliation of loss and comprehensive loss for the three month period ended June 30, 2010

	Notes	Canadian GAAP	Effect of Transition	IFRS (CDN \$)	IFRS (US \$)
Expenses					
Accounting and audit		\$ 52,200	\$ -	\$ 52,200	\$ 53,442
Bank charges and interest		1,967	-	1,967	2,014
Consulting		77,137	-	77,137	78,973
Amortization		45,202	-	45,202	46,278
Directors fees		37,825	-	37,825	38,725
Legal		88,519	-	88,519	90,626
Management fees		359,329	-	359,329	367,981
Office, rent and salaries		166,483	-	166,483	170,445
Promotion		173,595	-	173,595	177,727
Property investigation costs		15,197	-	15,197	15,559
Stock based payments	17e	1,001,503	(83,349)	913,154	934,887
Transfer agent and filing fees		7,705	-	7,705	7,898
Travel		48,239	-	48,239	49,387
		(2,074,901)	83,349	(1,986,552)	(2,031,802)
Write down of mineral property		(2,015,561)	-	(2,015,561)	(2,063,531)
Foreign exchange		106,560	-	106,560	109,096
Interest income		27,273	-	27,273	27,922
Net loss and comprehensive loss for the period		\$ (3,956,629)	\$ 83,349	\$ (3,868,280)	\$ (3,960,345)
Loss per share – basic and diluted		\$ (0.04)	\$ -	\$ (0.04)	\$ (0.04)

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17. Transition to IFRS (cont'd)

Reconciliation of loss and comprehensive loss for the year ended March 31, 2011

	Notes	Canadian GAAP	Effect of Transition	IFRS (CDN \$)	IFRS (US \$)
Expenses					
Accounting and audit		\$ 240,736	\$ -	\$ 240,736	\$ 234,044
Bank charges and interest		6,311	-	6,311	6,136
Consulting		301,162	-	301,162	292,790
Amortization		126,786	-	126,786	123,761
Directors fees		154,184	-	154,184	149,898
Legal		308,075	-	308,075	299,511
Management fees		1,376,775	-	1,376,775	1,338,501
Office, rent and salaries		863,413	-	863,413	839,410
Promotion		557,229	-	557,229	541,738
Property investigation costs		25,624	-	25,624	24,912
Stock based payments	17e	2,689,607	(237,267)	2,452,340	2,384,165
Transfer agent and filing fees		395,703	-	395,703	384,702
Travel		165,308	-	165,308	160,712
		(7,210,913)	237,267	(6,973,646)	(6,779,779)
Write down of mineral property		(2,371,456)	-	(2,371,456)	(2,305,530)
Gain on sale of securities		93	-	93	90
Foreign exchange		736,905	-	736,905	716,419
Interest income		147,962	-	147,962	143,849
Loss before taxes		(8,697,409)	237,267	(8,460,142)	(8,224,950)
Future income taxes		19,000	-	19,000	18,472
Loss from continuing operations		(8,678,409)	237,267	(8,441,142)	(8,206,478)
Discontinued operations		(803,242)	-	(803,242)	(780,912)
Loss for the year		(9,481,651)	237,267	(9,244,384)	(8,987,390)
Unrealized gain on available for sale securities		167,331	-	167,331	162,679
Future income taxes		(19,000)	-	(19,000)	(18,472)
Comprehensive loss for the period		\$ (9,333,320)	\$ 237,267	\$ (9,096,053)	\$ (8,843,183)
Loss per share – basic and diluted		\$ (0.04)	\$ -	\$ (0.04)	\$ (0.04)

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17. Transition to IFRS (cont'd)

Reconciliation of cash flows for the three month period ended June 30, 2010

	Notes	Canadian GAAP	Effect of Transition	IFRS (CDN \$)	IFRS (US \$)
Operating activities					
Loss before income taxes		\$ (3,954,973)	\$ 88,349	\$ (3,866,624)	\$(3,958,650)
Adjustments for non-cash items:					
Amortization		45,202	-	45,202	46,278
Stock-based payments	15(f)	1,001,503	(88,349)	913,154	934,887
Write off of mineral properties		2,015,561	-	2,015,561	2,063,531
Unrealized foreign exchange		128,201	-	128,201	(131,250)
Changes in non-cash working capital items:					
Accounts receivable		27,570	-	27,570	28,226
Prepaid expenses		127,327	-	127,327	130,357
Trade payables and accrued liabilities		380,021	-	380,021	389,065
Net cash flows from (used in) operating activities		(485,990)	-	(485,990)	(497,557)
Investing activities					
Expenditures on equipment		(48,021)	-	(48,021)	(49,164)
Change in restricted cash		(59,750)	-	(59,750)	(61,172)
Expenditures on exploration and evaluation assets		(3,193,944)	-	(3,193,944)	(3,269,960)
Net cash flows from (used in) investing activities		(3,301,715)	-	(3,301,715)	(3,380,296)
Financing activities					
Proceeds of sale of common shares		513,084	-	513,084	525,295
Net cash flows from (used in) financing activities		513,084	-	513,084	525,295
Increase (decrease) in cash and cash equivalents		(3,274,621)	-	(3,274,621)	(3,352,558)
Foreign exchange		126,544	-	126,544	129,556
Cash and cash equivalents, beginning		14,789,407	-	14,789,407	15,141,395
Cash and cash equivalents, ending		11,641,330	-	11,641,330	\$ 11,918,394

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17. Transition to IFRS (cont'd)

Reconciliation of cash flows for the year period ended March 31, 2011

	Notes	Canadian GAAP	Effect of Transition	IFRS (CDN \$)	IFRS (US \$)
Operating activities					
Loss before income taxes		\$ (8,678,409)	\$ 237,267	\$ (8,441,142)	\$ (8,206,478)
Adjustments for non-cash items:					
Amortization		126,786	-	126,786	123,261
Stock-based payments	15(f)	2,689,607	(237,267)	2,452,340	2,384,165
Write off of mineral properties		2,371,456	-	2,371,456	2,305,530
Gain on sale of marketable securities		(93)	-	(93)	(90)
Future income tax recovery		(19,000)	-	(19,000)	(18,472)
Unrealized foreign exchange		(52,129)	-	(52,129)	(50,680)
Changes in non-cash working capital items:					
Accounts receivable		(22,471)	-	(22,471)	21,846
Prepaid expenses		213,917	-	213,917	207,970
Accounts payable		(922,437)	-	(922,437)	(896,793)
Cash used in continuing operations		(4,292,773)		(4,292,773)	(4,173,434)
Discontinued operations		(336,884)		(336,884)	(327,519)
Net cash flows from (used in) operating activities		(4,626,657)	-	(4,626,657)	(4,500,953)
Investing activities					
Proceeds sale of marketable securities		1,935		1,935	1,881
Expenditures on equipment		(66,356)	-	(66,356)	(64,511)
Change in restricted cash		-	-	-	-
Expenditures on exploration and evaluation assets		(16,711,425)	-	(16,711,425)	(16,246,847)
Cash distributed to Prosperity		(2,612,248)		(2,612,248)	(2,539,628)
Investing activities – continuing operations		(19,388,094)		(19,388,094)	(18,849,105)
Discontinued operations		(852,049)		(852,049)	(828,362)
Net cash flows from (used in) investing activities		(20,240,143)	-	(20,240,143)	(19,677,467)
Financing activities					
Proceeds of sale of common shares		16,844,317	-	16,844,317	16,376,045
Discontinued operations		2,001,181	-	2,001,181	1,945,548
Net cash flows from (used in) financing activities		18,845,498	-	18,845,498	18,321,593
Increase (decrease) in cash and cash equivalents		(6,021,843)	-	(6,021,843)	(6,646,493)
Foreign exchange		(30,541)	-	(30,541)	(29,692)
Cash and cash equivalents, beginning		14,789,407	-	14,789,407	14,378,261
Cash and cash equivalents, ending		8,734,564	-	8,734,564	\$ 7,702,076

17. Transition to IFRS (cont'd)

Reconciliation of equity

	Note s	April 1, 2010	June 30, 2010	March 31, 2011
Equity previously reported under Canadian GAAP CDN \$		\$ 41,745,242	\$39,304,856	\$ 51,976,646
Adjustments upon adoption of IFRS				
Foreign exchange effects of transition to IFRS		(1,408,318)	(1,408,318)	(1,408,318)
Net Canadian \$		40,336,924	37,896,538	50,568,328
Warrant Liability allocation US \$		(4,130,404)	-	-
Foreign exchange to US \$		(834,663)	17,520	(302,465)
Equity reported under IFRS US \$		\$ 35,371,857	\$37,914,058	\$50,265,863

Reconciliation of comprehensive loss

	Notes	April 1, 2010	June 30, 2010	March 31, 2011
Comprehensive loss previously reported under Canadian GAAP – CDN \$		\$ (13,773)	\$ (12,405)	\$ 134,558
Adjustments upon adoption of IFRS – foreign exchange		220	288	3,453
Comprehensive loss reported under IFRS – US \$		\$ (13,553)	\$ (12,405)	\$ 130,817

17. Transition to IFRS (cont'd)

Notes to reconciliations

(a) Functional and presentation currency

IFRS requires that the functional currency of each entity in the consolidated Group be determined separately in accordance with the indicators as per IAS 21 "The Effects of Changes in Foreign Exchange Rates" and should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of all the subsidiaries of the Group is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars which is the Group's presentation currency.

Under IFRS, the results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of comprehensive income and are recognized in the profit or loss in the period in which the operation is disposed.

Under IFRS, the cash flow statement of the group must be prepared in the functional currency and then translated to the presentation currency at the exchange rates at the date of the cash flows or an average rate in line with the income statement treatment.

The financial statements of the Group as at April 1, 2010 have been restated to United States dollars, the functional currency of the major operating companies within the group. Foreign exchange differences have been recorded to reflect the restatements based on actual differences between previously recorded Canadian dollar equivalents and known US dollar amounts, where available, and between Canadian dollar amounts and their US dollar equivalents based on applicable exchange rates.

(b) Provision for restoration and environmental obligations

Under Canadian GAAP, asset retirement obligations are measured at fair value, incorporating market assumptions and discount rates based on the entity's credit-adjusted risk-free rate. Adjustments are made to asset retirement obligations for changes in the timing or amount of the cash flows and the unwinding of the discount. However, changes in discount rates alone do not result in a re-measurement of the provision. Changes in estimates that decrease the liability are discounted using the discount rate applied upon initial recognition of the liability while changes that increase the liability are discounted using the current discount rate.

IFRS requires decommissioning provisions to be measured based on management's best estimate of the expenditures that will be made and adjustments to the provision are made in each period for changes in the timing or amount of cash flow, changes in the discount rate, and the accretion of the liability to fair value (unwinding of the discount). Furthermore, the estimated future cash flows should be discounted using the current rates.

There were no obligations and therefore no changes to the financial statements as of January 1, 2010.

17. Transition to IFRS (cont'd)

Notes to reconciliations (cont'd)

(c) Deferred tax liabilities

The Group has previously purchased assets where the carrying value of the asset on initial recognition differs from the tax value of the asset on initial recognition. Under Canadian GAAP, a deferred tax liability is recognized for the resulting temporary difference, with a corresponding increase to the value of the asset recorded. IAS 12 "Income Taxes" does not permit the recognition of a deferred income tax asset or liability resulting from differences between the carrying value and tax value of an asset or liability on initial recognition, unless acquired as part of a business combination.

There were no changes to the financial statements as of January 1, 2010.

(d) Warrants

Under Canadian GAAP the Group classified warrants it issued to purchase common shares as equity instruments. Under IFRS, warrants issued by the Group to purchase common shares, for a fixed price stated in a currency other than the functional currency of the issuing entity and not offered pro rata to all existing shareholders of the same class at the time of issuance, are considered derivative financial liabilities. Such warrants are required to be measured and recognized at fair value with changes subsequent to initial recognition charged to profit or loss.

The Company has issued warrants that are denominated in Canadian dollars. The derivative financial liability is determined using the Black Scholes method, and is recorded in the restated financial statements.

(e) Share-based payments

The Group grants stock options that have a graded vesting schedule. Under Canadian GAAP, the Group accounted for grants of options with graded vesting as a single award and determined the fair value using the average life of the options granted. Stock-based compensation was recognized on a straight-line basis over the total vesting period. Under IFRS, the Group treats each instalment as its own award. Therefore, each instalment is measured and recognized separately.

There was an adjustment of C\$85,288 as of April 1, 2010, and a further C\$88,349 with respect to vesting options during the three months ended June 30, 2010. The total for the year ended March 31, 2011 was \$237,267.

Under Canadian GAAP, amounts recorded in relation to the fair value of stock options granted and warrants issued were recorded to contributed surplus. Under IFRS, these amounts have been reclassified as reserves.

(f) Interest income

Under Canadian GAAP, the Group classified interest income as operating activities. Under IFRS, interest income has been reclassified as an investing activity.

18. Events after the Reporting Period

1. On August 24, 2011 the Company completed a non-brokered private placement (the "Offering") of 10,290,000 units ("Units") at a price of \$0.56 per unit for gross proceeds of \$5,762,400. Each Unit is comprised of one common share (each a "Common Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of \$0.75 until February 23, 2013.

In connection with the Offering, the Company paid certain arm's length parties a cash fee on the sale of Units representing 6% of the proceeds raised by such finder and issued finder's compensation warrants (the "Finder's Warrants") equal to 6% of the number of Units sold by such finder. Each Finder's Warrant entitles the holder thereof to acquire one common share of the Company at a price of \$0.60 until February 23, 2013.

All securities issued in the Offering are subject to a four-month hold period ending December 24, 2011 in accordance with applicable Canadian securities laws. The net proceeds of the Offering will be used for exploration of the Company's gold properties in Nevada and for general corporate purposes.

2. On August 15, 2011, Prosperity Goldfields Corp. completed a private placement for \$1.7 million which resulted in the issuance of 2.5 million units at \$0.68. Each unit consisted of one common share and one warrant exercisable for two years at \$0.85 per share. This placement will further reduce the ownership position of the Company.