# METALORE
# RESOURCES LIMITED

Our
69th
Year

2012
Annual
Report

Front Cover Caption

# *Mystique of the "Dreamcatcher"*

*According to Native American legend, dreams that humans have while sleeping are sent by sacred spirits as messages. A Dreamcatcher is hung over the persons head while he (she) sleeps. Within the frame of the dreamcatcher there is a space, woven with rawhide cord. All bad dreams become entangled in the webbing - and die in the dark of night; while all good dreams are caught in the centre - and bring good tidings with the light of day.*

*All dreams are important to Native People and each person tries to determine what each dream means. The feathers and other ornaments that adorn each dreamcatcher have a special meaning to each person. Eagle feathers are a man's feather as they represent courage. Owl feathers are a woman's feather and represent wisdom.*

*(The Native hunter pictured is pursuing his dream.)*

**First Nations' inhabitants played an integral part in opening Canada's wilderness frontiers and contributing to the early settlements of both English and French Pioneers. First Nations represent a virulent labour, cultural and political force in exploring, developing and harvesting the vast resource wealth being discovered as these frontiers continue to be extended.**

# METALORE RESOURCES LIMITED

| | |
|---|---|
| ***Officers and Directors*** | GEORGE W. CHILIAN, *BA*<br>*President, CEO and Managing Director* ..................................... *Vittoria, Ontario* |
| | JOHN A. RYAN, *CGA*<br>*Director and CFO* ...................................................................... *Simcoe, Ontario* |
| | TIMOTHY J. CRONKWRIGHT, *BA*<br>*Director* .......................................................................................... *Simcoe, Ontario* |
| | BRUCE A. DAVIS, *MA*<br>*Director* ......................................................................... *Grand Rapids, Minnesota* |
| | MICHAEL A. DEHN, *MSc*<br>*Director* ............................................................................................ *Oakville, Ontario* |
| | J. DAVID MALOUF<br>*Director* ............................................................................................ *Longlac, Ontario* |
| | JOHN C. McVICAR, *BA*<br>*Director and Chairman* ............................................................... *Brantford, Ontario* |
| ***Executive Office and Natural Gas Division*** | *Rural Route #1* ............................................................................ *Vittoria, Ontario* |
| ***Production Manager and Hydrocarbon Geologist*** | *JONATHAN CHILIAN, BSc* .................................................... *Vittoria, Ontario* |
| ***Assistant Production Manager*** | *CARL CHILIAN, BA* .................................................................. *Simcoe, Ontario* |
| ***Bankers*** | *ROYAL BANK OF CANADA* ................................................. *Simcoe, Ontario* |
| ***Accountant*** | *HOWARD WALTON, BSc, CMA* ......................................... *Simcoe, Ontario* |
| ***Auditors*** | *NPT, LLP Chartered Accountants* ........................................ *London, Ontario*<br>*(Formerly Neal, Pallett and Townsend, LLP)* |
| ***Registrar and Transfer Agent*** | *COMPUTERSHARE TRUST* ................................................ *Toronto, Ontario* |
| ***Share Listing and Symbol*** | *TORONTO STOCK EXCHANGE (TSX), "MET"* ............ *Toronto, Ontario*<br>*(Over the Counter, "MTLRF")*.................................................... *United States* |
| ***Share Price Range*** | *2011 High $6.80 (CD) ........ 2012 Low $4.25 (CD)* |
| ***Annual Meeting*** | *BEST WESTERN LITTLE RIVER INN* .............................. *Simcoe, Ontario*<br>*Skylight Room*<br>*Saturday, September 22, 2012, 12:30 p.m.* |
| ***Website and Email*** | *www.metaloreresources.com* *info@metaloreresources.com* |

# METALORE RESOURCES LIMITED

## *PRESIDENT'S LETTER*

***To Our Shareholders:*** July 18, 2012

### Natural Gas Prospectives

Picture yourself clinging to the restraining bar of a swaying, towering roller coaster. In a steep descent, your knuckles are white as you hang on for dear life! You level off momentarily, thinking you're home free - and down you go again. That's what gas marketing has been like over the past fiscal year. For the previous ten years running, the gas market was volatile but it was vibrant and alive, moving from spiked highs through relatively short term craters. Then, the market became so lifeless and consistently lower, from month to month, it was not feasible to sell "strips" ahead because "front" months were always lower. Selling just a few weeks ahead, however, we were still able to garner a slight premium but it wasn't enough. In spite of applying every austerity measure possible to both production and administration costs, we recorded an Operating Loss in Fiscal 2012 for the ***first time*** in over ***forty years***. Nevertheless, we've had many prosperous years pursuing our exploration objectives. We have garnered a strong Balance Sheet and have efficient operations to "hunker down" and strive for better years ahead.

### Technological Innovations

Hydro-carbons have been explored, developed and produced by "conventional" (vertical wells) methods from increasingly deeper Paleozoic Formations (Sandstones, Dolomites and Limestones) in North America since the 1850's. However, the most noteworthy impetus toward expanding development was undoubtedly the "Spindletop" gusher in Texas that blew out for several days in January, 1901. That prolific field was rapidly developed by dozens of fortune seeking entrepreneurs within the year to be producing 17.5 million barrels of oil annually.

It subsequently took half of the century for industry to come up with an innovative "game changer" known as hydraulic-fracturing to dramatically enhance both the deliverability and longevity of production. Then, near the close of the century, completion methods were advanced exponentially by the drilling of lengthy, multi-directional, mammoth size, multi-fracked wells from single, ultra-productive platforms on both land and off-shore that could drain hydro-carbons from the rock formations for many miles.

### THE SHALE GAS PHENOMENA

Undoubtedly, the most exciting "Breakthrough" in harvesting hydro-carbons in this new millenium was the discovery and confirmation (both in laboratory and field trials) that certain "carbon rich" shale formations could be exploited to yield "commercial" quantities of Natural Gas (and even oil and distillates). Furthermore, developers had the ***unusual advantage*** this time of knowing the geographical location and extent of these massive, comparatively shallow formations because thay had already been identified by previous conventional exploration. Unlike the porous, permeable sandstones and dolomites, however, these shales were deemed to be void or nearly void of permeability[1] and of no economic importance. Interestingly, some of these shales had even been considered as "trap rock" to isolate conventional production.

### The Rush For Mineral Rights

So, there was a frenzied rush for land during the past several years by every integrated oil company (and a host of others) that had ready access to "big money" warchests. It was "Damn the Torpedos - Full Speed Ahead" and costs were not a factor. Extensive, ***mandatory drilling commitments*** were made, along with steep cash considerations paid for mineral rights and the drilling pace paralleled the race for land. As the land rush crescendoed, territory farther and farther into the hinterland was sought after.

It was reported[2] that Apache Corp had examined logs from sixteen wells drilled since 1960 and they assembled some 174,000 hectares of mineral rights in the remote Laird Basin[3] since 2007. Apache quietly completed three wells, some ***25 kilometres apart*** since 2009, and produced them into an existing pipeline running south from the Northwest Territories. One of these typical wells delivered gas at the rate of 21 Mmcfd (21 million cubic feet per day) into the pipeline for the first thirty days after a six stage "frack" treatment. Apache stated these wells could be completed for $35 million apiece and they are currently drilling a fourth well. In short, this company has invested over $150 million on the Laird Project already, which gives you some idea of the dynamics at play here.

## Shale Gas Drilling Costs “Subsidized” By Oil Profits

Crude oil prices were (and are) still flying high and the vast majority of early shale gas development was financed (actually subsidized) by high revenue from oil. Initially, producers didn’t have the slightest concept nor concern about the economic viability of shale gas because the development provided them with substantial tax write-offs to boot. This became “The Perfect Storm” for pure gas producers (like Metalore). The gas market started to tumble - and just kept tumbling on the back of mild winters.

## Why Gas Prices Are So Low

In summary, shale gas production is a remarkable achievement - although the jury is still out on the ***economics*** - costs vs. revenues. We have simply experienced a giant ***overkill*** of new shale drilling that flooded the gas market and drove down the price. At this point in time (mid July, 2012), although gas consumption has been increasing, North American gas storage facilities still have 25% more inventory than for the previous five year average.

Nevertheless, the gas market has finally shown some resilience since April (2012). Clean Natural Gas is the preferential fuel in North America to supply the life sustaining necessities of (a) co-generation, (b) electricity and (c) heat. There are some fundamental factors that should have a positive influence on the price of gas over both the short and long term. They are:

1. The unprecedented disparity in Btu value with crude oil.
2. The “payout” cost of completing and producing shale gas.
3. Weather.
4. LNG Expansion.
5. Energy and fuel conversions (from coal, oil, propane and fiber etc.).
6. Anticipated and unanticipated worldwide events.

## Mining Exploration

Metalore completed seven seasonal exploration programs on it’s extensive claim holdings at Cedartree Lake, Ontario between the years 2002 and 2010. No programs were conducted in the field during calendar 2011, and 2012, thus far but our long awaited, diligently prepared NI 43-101 Technical Report was filed on SEDAR on March 16, 2012, prior to the Fiscal Year end. The 95 page, detailed report by Geological Engineer, Claude P. Laroache, entitled, “Gold Exploration Potential and Preliminary Resource Estimate, East Cedartree Lake” tabulated both Indicated and Inferred Gold Resources and made specific recommendations for significant further exploration to be carried out. Within the past three months Metalore has received unsolicited preliminary proposals for options and/or purchase agreements on both the Cedartree Lake properties and on our mining interests in the Beardmore/Geraldton area. All of Metalore’s properties have outstanding potential. There is still a lot of domestic and foreign financing available for worthwhile exploration and development projects.

On Behalf of the Board,

GWChilian

George W. Chilian, President

1. The natural ability of fluid and gas to migrate through rock.
2. Reuters, June 15/12 and “Globe & Mail”.
3. Extreme NE corner of British Columbia, near 60th parallel.

# METALORE RESOURCES LIMITED

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Metalore Resources Limited

We have audited the accompanying financial statements of Metalore Resources Limited, which comprise the statements of financial position as at March 31, 2012 and March 31, 2011 and April 1, 2010 and the statements of income, changes in equity, comprehensive income and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Metalore Resources Limited as at March 31, 2012, March 31, 2011 and April 1, 2010, and the results of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

NPT LLP

London, Canada
June 29, 2012

NPT LLP
Chartered Accountants
Licensed Public Accountants

# METALORE RESOURCES LIMITED

## 2012 Fiscal Year End Financial Statements

### STATEMENTS OF FINANCIAL POSITION
### March 31, 2012 and 2011 and April 1, 2010

| | *March 31* **2012** | *March 31* 2011 | *April 1* 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT | | | |
| Cash and cash equivalents | **$ 453,900** | $ 170,229 | $ 248,040 |
| Marketable securities *(Note 6)* | **1,109,834** | 1,396,231 | 1,289,297 |
| Accounts receivable | **85,382** | 125,319 | 144,799 |
| Inventory | **44,520** | 57,260 | 48,240 |
| Income taxes recoverable | **-** | - | 7,005 |
| Prepaid expenses | **-** | 5,000 | - |
| | **1,693,636** | 1,754,039 | 1,737,381 |
| Property and equipment *(Note 7)* | **10,631,824** | 10,860,225 | 10,861,141 |
| Land *(Note 7)* | **130,000** | 130,000 | 130,000 |
| Exploration and evaluation assets *(Note 8)* | **3,962,741** | 3,934,727 | 3,529,818 |
| | **$ 16,418,201** | $ 16,678,991 | $ 16,258,340 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| CURRENT | | | |
| Accounts payable and accrued liabilities | **$ 141,570** | $ 109,875 | $ 164,879 |
| Income taxes payable | **3,131** | 3,131 | - |
| Current portion of long term debt *(Note 9)* | **-** | 14,306 | 16,008 |
| | **144,701** | 127,312 | 180,887 |
| Long term debt *(Note 9)* | **-** | - | 30,515 |
| Future income taxes *(Note 12)* | **2,369,400** | 2,399,400 | 2,726,500 |
| Provisions *(Note 10)* | **118,277** | 261,413 | 187,500 |
| | **2,487,677** | 2,660,813 | 2,944,515 |
| | **2,632,378** | 2,788,125 | 3,125,402 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital *(Note 11)* | **2,468,832** | 2,468,832 | 2,468,832 |
| Contributed surplus | **36,634** | 36,634 | 36,634 |
| Accumulated comprehensive income | **451,290** | 533,174 | 162,489 |
| Retained earnings | **10,829,067** | 10,852,226 | 10,464,983 |
| | **13,785,823** | 13,890,866 | 13,132,938 |
| | **$ 16,418,201** | $ 16,678,991 | $ 16,258,340 |

CONTINGENT LIABILITY *(Note 14)*

***See accompanying notes***

Approved on behalf of the Board:

John A. Ryan,
Director and CFO

John C. McVicar,
Director

# METALORE RESOURCES LIMITED

## STATEMENTS OF INCOME
## Years Ended March 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **REVENUE** | | |
| Natural gas production | **$ 873,709** | $ 1,131,580 |
| Investment income | **85,488** | 69,058 |
| Royalties | **2,592** | 3,955 |
| | **961,789** | 1,204,593 |
| ROYALTIES PAID | **80,130** | 82,532 |
| NET REVENUE | **881,659** | 1,122,061 |
| **EXPENSES** | | |
| Natural gas production costs | **482,804** | 493,815 |
| Amortization of natural gas assets | **299,428** | 276,485 |
| Administration | **252,792** | 163,059 |
| Accretion *(Note 10)* | **7,179** | 15,914 |
| | **1,042,203** | 949,273 |
| **INCOME (LOSS) FROM OPERATIONS** | **(160,544)** | 172,788 |
| OTHER INCOME | | |
| Realized gains (losses) on marketable securities | **213,565** | (5,845) |
| INCOME BEFORE INCOME TAXES | **53,021** | 166,943 |
| FUTURE INCOME TAXES (RECOVERED) *(Note 12)* | **(30,000)** | (327,100) |
| **NET INCOME FOR THE YEAR** | **$ 83,021** | $ 494,043 |
| **EARNINGS PER SHARE** | **$ 0.05** | $ 0.28 |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | **1,775,035** | 1,775,035 |

## STATEMENTS OF CHANGES IN EQUITY
## Years Ended March 31, 2012 and 2011

| | Common Shares | | | Accumulated other | | |
|---|---|---|---|---|---|---|
| | Number of shares | Amount | Contributed surplus | comprehensive income | Retained earnings | Total equity |
| Balances, April 1, 2010 | 1,775,035 | $ 2,468,832 | $ 36,634 | $ 162,489 | $ 10,464,983 | $ 13,132,938 |
| Increase in unrealized gain on available for sale securities | - | - | - | 364,673 | - | 364,673 |
| Reclassification for realized gains | - | - | - | 6,012 | - | 6,012 |
| Net income for the year | - | - | - | - | 494,043 | 494,043 |
| Dividends paid during the year | - | - | - | - | (106,801) | (106,801) |
| Balances, March 31, 2011 | 1,775,035 | $ 2,468,832 | $ 36,634 | $ 533,174 | $ 10,852,226 | $ 13,890,866 |
| Increase in unrealized gain on available for sale securities | - | - | - | 127,123 | - | 127,123 |
| Reclassification for realized losses | - | - | - | (209,007) | - | (209,007) |
| Net income for the year | - | - | - | - | 83,021 | 83,021 |
| Dividends paid during the year | - | - | - | - | (106,180) | (106,180) |
| Balances, March 31, 2012 | 1,775,035 | $ 2,468,832 | $ 36,634 | $ 451,290 | $ 10,829,067 | $ 13,785,823 |

***See accompanying notes***

# METALORE RESOURCES LIMITED

## STATEMENTS OF COMPREHENSIVE INCOME
## Years Ended March 31, 2012 and 2011

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **NET INCOME** | **$** | **83,021** | $ | 494,043 |
| **CHANGES IN COMPREHENSIVE INCOME** | | | | |
| Unrealized gain on available for sale securities | | **127,123** | | 364,673 |
| Reclassification for realized gains (losses) | | **(209,007)** | | 6,012 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | **(81,884)** | | 370,685 |
| **COMPREHENSIVE INCOME (LOSS) FOR THE YEAR** | **$** | **1,137** | $ | 864,728 |

## STATEMENTS OF CASH FLOWS
## Years Ended March 31, 2012 and 2011

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net income for the year | **$** | **83,021** | $ | 494,043 |
| Items not affecting cash: | | | | |
| Amortization of natural gas assets | | **299,428** | | 276,485 |
| Loss (gain) on disposal of marketable securities | | **(213,565)** | | 5,845 |
| Future income taxes | | **(30,000)** | | (327,100) |
| Accretion | | **7,177** | | 15,913 |
| | | **146,061** | | 465,186 |
| Changes in non-cash working capital: | | | | |
| Accounts receivable | | **39,937** | | 19,480 |
| Inventory | | **12,740** | | (9,020) |
| Prepaid expenses | | **5,000** | | (5,000) |
| Accounts payable and accrued liabilities | | **31,697** | | (55,002) |
| Income taxes payable | | **-** | | 10,135 |
| | | **89,374** | | (39,407) |
| Cash flow from operating activities | | **235,435** | | 425,779 |
| **INVESTING ACTIVITIES** | | | | |
| Proceeds on disposal of marketable securities | | **671,056** | | 588,494 |
| Purchase of marketable securities | | **(252,785)** | | (330,093) |
| Natural gas development and exploration costs | | **(221,535)** | | (215,752) |
| Exploration and evaluation costs | | **(28,014)** | | (407,221) |
| Cash flow from (used by) investing activities | | **168,722** | | (364,572) |
| **FINANCING ACTIVITIES** | | | | |
| Dividends paid | | **(106,180)** | | (106,801) |
| Repayment of long term debt | | **(14,306)** | | (32,217) |
| Cash flow used by financing activities | | **(120,486)** | | (139,018) |
| **INCREASE (DECREASE) IN CASH FLOW** | | **283,671** | | (77,811) |
| Cash - beginning of year | | **170,229** | | 248,040 |
| **CASH - END OF YEAR** | **$** | **453,900** | $ | 170,229 |

***See accompanying notes***

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

**1. NATURE OF OPERATIONS**

Metalore Resources Limited (the “Company”) is a publicly traded junior resource company dedicated to natural gas production and gold exploration in Ontario. The Company currently operates in one geographic region, Canada. The head office, principal address, registered address and records office of the Company are located at P.O. Box 422 Simcoe, Ontario, N3Y 4L5, Canada.

These financial statements were approved by the Board of Directors on June 29, 2012

**2. STATEMENT OF COMPLIANCE**

These audited financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

This is the first year the Company has adopted IFRS so they have followed the requirements of IFRS 1 “First Time Adoption of IFRS”. Canadian GAAP differs in some areas from IFRS, so in preparing these financial statements Note 19 includes reconciliations and descriptions of the effect of the transition on the statement of financial position as at March 31, 2011 and April 1, 2010 as well as for the statement of income and comprehensive income for the year ended March 31, 2011. The Company has also applied certain optional exemptions and certain mandatory exemptions as applicable for first time IFRS adopters.

The policies set out below were consistently applied to all the periods presented unless otherwise required under IFRS 1. The Company’s financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) until March 31, 2011.

**3. BASIS OF PRESENTATION**

These financial statements have been prepared using the historical cost basis except for financial instruments classified as held for trading or available for sale as these are recorded at their fair value.

These financial statements including comparatives have been prepared on the basis of IFRS standards that are effective on March 31, 2012, the Company’s first annual reporting date.

The preparation of these financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP as explained in Note 19.

The preparation of these financial statements in accordance with IFRS requires management to make estimates, judgements and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

**Presentation currency**

The Company’s presentation and its functional currency is the Canadian dollar.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue recognition**

Sales of natural gas are recognized when title passes to the customer, normally at the transporter’s (Union Gas Limited) pipeline delivery point, and collectability is reasonably assured.

Investment income is recognized when earned.

**Cash and cash equivalents**

Cash and cash equivalents are comprised of cash and short-term investments that have a fixed maturity date less than three months from the date of acquisition.

**Inventory**

Inventory consists of pipe, fittings and processing supplies and is stated at the lower of cost and net realizable value, with the cost of pipe and fittings determined on a first-in, first-out basis.

**Natural gas properties**

The Company owns and/or controls approximately 40,000 acres of petroleum, natural gas and mineral leases in Charlotteville, Walsingham and Houghton townships in Norfolk County, Ontario.

**Exploration and evaluation of oil and gas assets**

Capitalization

The Company applies the full cost method of accounting for Exploration and Evaluation (E&E) costs on its natural gas properties. Under the full cost method of accounting for E&E costs, expenditures made on the exploration for and evaluation of natural gas properties are capitalized on a well by well basis from the time the Company obtains the legal rights to explore in an area until completion of the evaluation of the property. Such costs include costs of drilling, annual lease costs, geological consulting and the cost of equipment and general and administrative overhead charges directly related to the exploration and evaluation of the properties. Costs that qualify for capitalization are recorded as an intangible E&E asset until a determination is made about the future of the asset. E&E assets are not depleted until the exploration phase is complete and are subject to impairment testing described below. Costs incurred prior to the legal right to explore an area are expensed in the year incurred.

Upon completion of the exploration phase, and when technically feasible and commercially viable reserves are discovered, the capitalized assets are reclassified to producing assets on the statement of financial position as either equipment or petroleum and natural gas assets within property and equipment after being tested for impairment. Any impairment loss would be immediately recognized as a charge to income prior to reclassification. Depletion or amortization of the assets would commence subsequent to this date.

Impairment

Impairment testing is performed at the individual well level as this is the lowest cash generating unit identifiable in accordance with IAS 36 “Impairment of Assets”.

For E&E assets, an annual review for impairment factors is performed. If an indicator of impairment exists such that the book value of an asset may exceed its recoverable amount, then an impairment assessment is performed. The recoverable amount is the higher of the assets fair value less costs to sell and its value in use. If the carrying value exceeds the recoverable amount, the difference is recorded as an impairment loss in that period.

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

(Continued from previous page)

**Property and equipment**

Capitalization and amortization

Petroleum and natural gas ("P&NG") assets represent the cost of developing the commercial reserves and bringing them into production. P&NG assets include the E&E costs that are transferred in accordance with the accounting policy on E&E assets.

P&NG assets are depleted on a unit of production basis based on proved reserves which are assessed annually.

Impairment

An annual assessment is made to determine if the carrying value of property and equipment exceeds its recoverable amount. For P&NG assets, the recoverable amount is based on the discounted future cash flows on a well by well basis using forecasted cost and prices. The prices used to estimate future cash flows are based on published forecasted prices for the NYMEX adjusted for the historical price differential between Metalore's gas sales and the benchmark. The difference between the value in use and the carrying value is recognized in the statement of operations and comprehensive income as an impairment loss. If in a subsequent period the impairment loss reverses, the carrying value of the asset is increased to the lesser of the revised recoverable amount and the original carrying value of the asset had no impairment loss been recognized.

**Land**

Land is comprised of an undeveloped property and is initially measured at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and other similar costs. The carrying amount also includes the cost of replacing part of the existing property at the time the cost is incurred if the recognition criteria are met.

**Mining properties**

The Company holds a 1% net smelter return on 18 claims in the Brookbank and Beardmore area of Ontario and a 21-26% participating interest in over 600 contiguous mining claims in Sandra, Irwin, Walters, Leduc and LeGault townships in Northwestern Ontario the majority of which are subject to a working option agreement with Premier Gold Mines Limited, formerly Goldstone Resources Inc.

The Company also owns a 100% interest in 306 mining claims in the Sioux Narrows (Cedartree Lake) area of Northwestern Ontario. A nominal amount of exploration on this property has been conducted to date.

The Company is in the exploration stage with respect to its investment in mining properties and capitalizes the acquisition costs of resource properties and all costs related to the exploration and development of resource properties until the property is brought into commercial production, sold or abandoned. Such costs include lease acquisition costs, geological and geophysical costs, costs of drilling and general and administrative overhead charges directly related to exploration and development.

Disposals of mining property and equipment are offset against the acquisition costs. If exploration activities are followed by production, capitalized costs will be amortized on the units of production method based on the estimated reserves in the area. If exploration activities are unsuccessful and the area is abandoned all capitalized costs relating to the area will be written off to the Statement of Income.

Impairment

An assessment of the carrying value of the mining properties is made at least annually or earlier if facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. Impairment testing is performed for each property individually as this is the lowest cash generating unit identifiable in accordance with IAS 36 "Impairment of Assets". Where the carrying amount exceeds its recoverable amount the asset is written down to its recoverable amount and the impairment loss is recognized in the statement of operations in the year incurred. The impairment loss may be reversed in a subsequent period if there has been a change in the estimates used.

**Provisions for decommissioning and environmental rehabilitation**

A provision is recognized if, as a result of a past event, the Company has a future obligation resulting from the retirement and reclamation of the tangible long-lived assets and this obligation can be reliably estimated. The obligation is measured at the present value of management's best estimate of the expected expenditures required to settle this obligation and is recorded in the period the related assets are put into use with a corresponding increase to the carrying amount of the related assets. This increase in capitalized costs is deducted against income on a basis consistent with the underlying assets. Subsequent changes in the estimated fair value of the provision are capitalized and depleted over the remaining useful life of the underlying asset.

The provisions are carried on the statement of financial position at their discounted present value and are accreted over time for the change in their present value. The obligation is discounted at a rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

**General and administrative costs**

General and administrative overhead directly associated with the exploration or development of the property is capitalized to the related property in the year incurred. Overhead costs that do not qualify for capitalization are expensed to operations in the period as incurred.

**Income taxes**

Income taxes are comprised of current and deferred income taxes. Current income taxes are measured at the amount expected to be payable on taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period.

The Company follows the liability method of accounting for deferred income taxes. Under this method, deferred income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of statement of financial position items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Deferred income tax assets are recognized to the extent it is more likely than not they will be realized.

**Stock options**

The Company uses the fair value method using the Black-Scholes option pricing model to account for stock options granted to employees. Under the fair value method, the Company recognizes estimated compensation expense related to stock options over the vesting period of the options granted, with the related credit being charged to contributed surplus. Upon exercise of any stock options, amounts previously credited to contributed surplus are reversed and credited to share capital.

There were no stock options issued during the year or in the prior two years.

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

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**Earnings per share**
Basic earnings per common share are calculated by dividing the net income for the year by the weighted average number of common shares outstanding in each respective year. Diluted earnings per common share reflect the maximum possible dilution from the potential exercise of stock options, if dilutive.

**Financial instruments**
Financial instruments include cash and cash equivalents, marketable securities, accounts receivable and accounts payable and accrued liabilities. The Company classifies its financial instruments in the following categories: financial assets at fair value through the statement of income (referred to as held-for-trading in Canadian GAAP), loans and receivables, available for sale and other financial liabilities. The measurement basis for each of these categories is described below:

Financial assets at fair value through the statement of income
In this category are assets acquired principally for the purpose of selling in the short term. They are initially recognized and subsequently carried at fair value with changes recognized in the statement of income in the period they arise. The Company has classified cash and cash equivalents in this category.

Loans and receivables
Financial instruments in this category have fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method. Accounts receivable has been classified as loans and receivables.

Available for sale
Available for sale financial assets are initially recognized at fair value and are subsequently carried at fair value with changes in fair value recognized in other comprehensive income. The Company has classified marketable securities in this category.

Other financial liabilities
These liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method. The Company has classified accounts payable and accrued liabilities as other financial liabilities.

Fair value hierarchy
The Company is required to classify their financial instruments within a hierarchy that prioritizes the inputs to fair market value. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in an active market 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.

Cash and cash equivalents and marketable securities are measured at fair value using Level 1 inputs and accounts receivable, accounts payable and accrued liabilities are measured at fair value using Level 2 inputs.

**Capital management disclosures**
The Company discloses the entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements and if it has not complied, the consequences of non-compliance.

**Contingent liabilities**
A contingent liability is a possible obligation whose existence will be confirmed only by future events or a present obligation where it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation can't be measured reliably. Two conditions must be met in order for a contingent liability to be recorded in the financial statements:

i. Future events that have confirmed the existence of the present obligation which is expected to result in an outflow of economic resources; and
ii. The amount of the obligation can be measured reliably.

Unless these two conditions can be met, the contingent liability is disclosed in the financial statements.

**Comprehensive income (loss)**
Comprehensive income (loss) is defined as the change in equity from transactions, events, and circumstances from non-owner sources. Other comprehensive income (loss) refers to items recognized in comprehensive income that are not included in net income, such as unrealized gains or losses on available for sale investments.

**Jointly controlled operations**
A portion of the production activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportional interest in these activities.

**Critical accounting estimates and judgements**
The preparation of financial statements requires management to select accounting policies and to make judgements and estimates about the future that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statement date. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable in the circumstances.

The following are the critical estimates and judgements that were made by management in the preparation of these financial statements:

a. Recording of depletion
The Company's petroleum reserves represent the estimated quantities of petroleum products which engineering data can demonstrate with a certain degree of accuracy as being economically recoverable from known reservoirs and can be recovered in a commercially viable manner. The amount of depletion recorded in any particular year or quarter is dependent upon the amount of recoverable reserves that are in place by the Company. The estimate of these reserve balances is prepared on an annual basis by an independent petroleum engineer. However, in the course of estimating these reserves and their value, assumptions are made about future commodity prices, decline rates, remediation costs, future capital costs, future operating costs and operational up-time.

b. Share based payments
Share based compensation is valued using the Black Scholes option pricing model. In utilizing this model, assumptions have to be made about option life, share volatility, dividend yields, risk free rates of return and estimated forfeitures at the grant date of options.

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

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c. Impairment testing

Impairment testing requires the Company to segregate its assets into cash generating units. This segregation is an estimate made by management and is therefore subject to uncertainty. The key area where impairment tests are conducted are with the Petroleum and Natural Gas assets, and the E&E expenditures. In determining whether an impairment has occurred, or a previously recorded impairment loss can be reversed, requires a review of estimated future cash flows. The future cash flows contain many measures of uncertainty including future reserves, operating costs and production rates. These estimates are subject to change as new information becomes available or as changes in technology or regulations dictate.

d. Income taxes

Income taxes are based upon enacted laws. Deferred income taxes are based upon laws that have been enacted that affect future income tax rates. Changes in the law could result in changes to those rates and the amount of income tax ultimately payable by the Company.

Deferred income taxes, if in an asset position, require consideration of those assets will be recoverable. This requires an assessment of the probability of taxable income within a carryforward period and the income tax rates that will be in effect in those years. To the extent that this information changes, it can result in an increase or decrease to the amount of deferred income taxes recorded by the Company.

e. Decommissioning obligations

The Company estimates its obligation to decommission and remediate it sites based on known laws and technology. It also makes an estimate of when these costs are likely to be incurred as well as using estimates of interest rates, inflation and clean up costs. Any of these variables are subject to change and result in a revision to the recorded amount of the provision recorded on the Statements of Financial Position.

**5. Recent Accounting Pronouncements**

Certain new accounting standards, interpretations and amendments to existing standards were issued by the IASB or the International Financial Reporting Interpretation Committee ("IFRIC"). These standards are effective for accounting periods beginning January 1, 2013. The standards impacted that are applicable to the Company are as follows:

- IAS 1 – Presentation of Financial Statements: The amendments to this standard are designed to tie in the elements of comprehensive income more closely together. It is not expected that the implementation of this standard will have any impact on the Company.
- IFRS 7 – Financial Instruments Disclosure: The amendments provide additional guidance on the identification and disclosure of transfers of financial assets. This standard is not expected to have any impact on the Company.
- IFRS 9 – Financial Instruments: Classification and Measurement: This standard addresses classification and measurement of financial assets and largely replaces IAS 39 "Financial Instruments Recognition and Disclosure". It is not expected that this section will have any impact on the Company.
- IFRS 11 – Joint Arrangements: This standard is intended to provide for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. The impact of the implementation of this standard is being assessed by the Company.
- IFRS 12 – Disclosure of Interests in Other Entities: This standard addresses disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The impact of the implementation of this standard is being assessed by the Company.
- IFRS 13 – Fair Value Measurement: This standard provides guidance on determining fair value when other standards require the use of fair value for measurement or disclosure purposes. As fair value is used in various standards, the implementation of this standard could impact some disclosure or measurements used by the Company. The impact of the implementation of this standard is being assessed by the Company.

**6. Marketable securities**

Marketable securities consist of the following:

| | Income trust units | | Partnership units | | Common shares | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | FMV | Cost | FMV | Cost | FMV | Total cost | Total FMV |
| Balance at April 1, 2010 | $ 133,492 | $ 149,072 | $ 326,439 | $ 412,032 | $ 718,877 | $ 728,193 | $ 1,178,808 | $ 1,289,297 |
| Purchases | 101,925 | 101,925 | 49,889 | 49,889 | 178,281 | 178,943 | 330,095 | 330,757 |
| Disposals | - | - | (38,600) | (47,305) | (546,825) | (532,770) | (585,425) | (580,075) |
| Return of capital | (5,104) | (5,104) | - | - | (3,317) | (3,317) | (8,421) | (8,421) |
| Increase (decrease) in FMV | - | 72,607 | - | 183,184 | - | 108,882 | - | 364,673 |
| Balance at March 31, 2011 | 230,313 | 318,500 | 337,728 | 597,800 | 347,016 | 479,931 | 915,057 | 1,396,231 |
| Change in type of units | (230,313) | (318,500) | - | - | 230,313 | 318,500 | - | - |
| Purchases | - | - | - | - | 252,785 | 253,022 | 252,785 | 253,022 |
| Disposals | - | - | (106,150) | (185,699) | (342,363) | (472,051) | (448,513) | (657,750) |
| Return of capital | - | - | (8,786) | (8,792) | - | - | (8,786) | (8,792) |
| Increase (decrease) in FMV | - | - | - | 66,371 | - | 60,752 | - | 127,123 |
| **Balance at March 31, 2012** | **-** | **-** | **222,792** | **469,680** | **487,751** | **640,154** | **710,543** | **1,109,834** |

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

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**7. Property and equipment**

Property and equipment consists of the following:

| Cost | Land | Natural gas properties | Total |
|---|---|---|---|
| Balance, April 1, 2010 | $ 130,000 | $ 15,187,841 | $ 15,317,841 |
| Additions | - | 275,569 | 275,569 |
| Balance, March 31, 2011 | 130,000 | 15,463,410 | $ 15,593,410 |
| Additions | - | 71,028 | 71,028 |
| **Balance, March 31, 2012** | **$ 130,000** | **$ 15,534,438** | **$ 15,664,438** |
| **Amortization and depletion** | | | |
| Balance, April 1, 2010 | $ - | $ (4,326,700) | $ (4,326,700) |
| Amortization, depletion | - | ( 276,485) | (276,485) |
| Balance, March 31, 2011 | - | ( 4,603,185) | $ (4,603,185) |
| Amortization, depletion | - | ( 299,428) | (299,428) |
| **Balance, March 31, 2012** | **$ -** | **$ (4,902,613)** | **$ (4,902,613)** |
| **Net book value** | | | |
| April 1, 2010 | $ 130,000 | $ 10,861,141 | $ 10,991,141 |
| March 31, 2011 | $ 130,000 | $ 10,860,225 | $ 10,990,225 |
| **March 31, 2012** | **$ 130,000** | **$ 10,631,824** | **$ 10,761,825** |

The Company's natural gas properties are subject to an annual evaluation by a professional engineer who has estimated that the before tax value of the Company's reserves, using forecasted prices and operating costs and discounted at 10%, as being approximately $10,953,400.

**8. Exploration and evaluation assets**

Exploration and evaluation assets consist of the following:

| Mining properties | Total |
|---|---|
| Balance, April 1, 2010 | $ 3,529,818 |
| Additions | 404,909 |
| Balance, March 31, 2011 | 3,934,727 |
| Additions | 28,014 |
| Balance, March 31, 2012 | $ 3,962,741 |

**9. Long term debt**

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Royal Bank of Canada term loan repayable in monthly principal payments of $1,334, bearing interest at prime plus 1.25%, secured by a general security agreement and a collateral mortgage on the land owned by the Company. | $ - | $ 14,306 | 46,523 |
| Amounts payable within one year | - | (14,306) | (16,008) |
| Balance, end of year | - | - | 30,515 |

**10. Provisions**

| | March 31, 2012 | March 31, 2011 |
|---|---|---|
| Balance, beginning of year | $ 261,413 | $ 187,500 |
| Accretion | 7,179 | 15,913 |
| Revisions to estimated cash flows | (150,315) | 58,000 |
| **Balance, end of year** | **$ 118,277** | **$ 261,413** |

The Company's provision consists of remediation obligations resulting from its ownership interests in natural gas assets. The total obligation is estimated based on the Company's net ownership interest in each well site, estimated costs to return these sites to their original condition and costs to plug the wells and the estimated timing of the costs to be incurred in future years.

The total undiscounted amount of estimated cash flows required to settle the obligation at March 31, 2012 is $1,274,769 (2011 - $2,461,808) which has been discounted at 6.5% (2011 – 6.5%) using a fifty year maximum life in accordance with estimates prepared by independent engineers. Estimated future retirement costs such as dismantlement, site restoration and abandonment costs are subject to uncertainty associated with the method, timing and extent of future dismantlement, site restoration and abandonment. For example, changes in legislation or technology may result in actual future costs that differ materially from those currently estimated.

**11. Share capital**

Authorized: 4,000,000 Common shares

*Stock options*

No options were outstanding at the end of fiscal years 2012, 2011 or 2010.

| | March 31, 2012 | March 31, 2011 |
|---|---|---|
| Earnings per share | | |
| Net income | **$ 83,021** | $ 494,043 |
| Weighted average common shares outstanding during the period - basic | **1,775,035** | 1,775,035 |
| Income per share - basic | **0.05** | 0.28 |

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

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**12. Income taxes**

The provision for income taxes recorded in the financial statements varies from the amount that would be computed by applying the statutory income tax rate of 27.75% (2011 – 30.12%) as a result of the following:

| | **March 31, 2012** | **March 31, 2011** |
|---|---|---|
| Income before income tax provision | **53,021** | 166,943 |
| Income tax expense | **14,700** | 50,380 |
| Tax effect of the following: | | |
| Adjustment for substantially enacted rates | - | (431,860) |
| Tax benefit of losses | **(12,500)** | - |
| Capital transactions | **(29,600)** | 61,170 |
| Other | **(2,600)** | (6,790) |
| Provision for income taxes | **(30,000)** | (327,100) |

Tax benefits in excess of any current income are reflected in the calculation of the future income tax liability. The tax balances, available in perpetuity to reduce future taxable income, are as follows:

| | |
|---|---|
| Cumulative Canadian exploration expenses | 2,407,262 |
| Cumulative Canadian development expenses | 616,071 |
| Cumulative Canadian oil and gas property expenses | 463,505 |
| Foreign exploration and development expenses | 2,300 |
| Undepreciated capital costs - property, plant and equipment | 701,440 |

The Company has accumulated corporate minimum tax credits of $140,000 which can be used to reduce future Provincial income taxes payable. This benefit will not be recognized due to the uncertainty of realizing this benefit within the carry-forward period.

The Company has also accumulated an Ontario resource tax credit of $50,380 which can be used to reduce future Provincial income taxes payable.

Upon the transition to harmonized corporate tax filing of Federal and Provincial tax returns on January 1, 2009, the Company recognized a transitional credit of approximately $179,000. This credit is available over a period of five years to reduce future corporate income taxes payable.

The Company has a capital loss of $403,100 available for application against future years' capital gains with no expiry date. Such benefits will be recorded as an adjustment to the tax provision in the year realized. The Company has also incurred non-capital losses of $50,000 which are available to reduce future taxable income. The losses expire as follows: $780 in 2030 and $49,220 in 2032.

**13. Related party transactions**

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company has an agreement with Southern Ontario Natural Gas Limited ("SONG"), a private company controlled by the Company's president, George W. Chilian, to provide technical services for the gas operations for an annual fee of $78,000 plus 10% of the Company's annual gas revenue in excess of $1,000,000. Effective October 1, 2011 for a six month period ended March 31, 2012, this annual fee has been waived.

The fiscal 2012 expense charged by SONG amounted to $39,000 (2011 -$87,773). The Company and SONG also have a joint ownership (52% and 48% respectively) in natural gas properties in Houghton Township, Ontario. The Company collects the proceeds for all of the gas produced from this natural gas property and provides SONG with its proportionate share of the revenue. The Houghton battery has been shut in for the past five years due to a lack of market demand.

As at March 31, 2012, the Company owed SONG $17,093 (2011 -$17,023) which is comprised of amounts payable related to technical services and natural gas production of $17,093 (2011 $17,023). This indebtedness is unsecured, non-interest bearing, due on demand and included with accounts payable and accrued liabilities.

The Company purchased accounting and consulting services in the amount of $6,500 (2011 $4,700) from a business owned by an officer of the Company.

The compensation paid to directors of the Company was $7,470 (2011 -$2,652) and the compensation paid to the President and Chief Executive Officer was $135,600 (2011 -$135,600). The President and Chief Executive Officer was not paid short-term employee benefits, share-based payments, post-employment benefits, termination benefits or other long-term benefits during the fiscal years ended March 31, 2011 and March 31, 2012.

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

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**14. Commitments and Contingencies**

The Company is party to natural gas and mining lease commitments requiring ongoing annual compensation payments in the amount of $10,000 (2011 -$10,000). The leases allow for the surrender of the agreement and termination of payment at the option of the lessee. In addition to the lease commitments there are royalty amounts ultimately payable pursuant to these agreements which are dependent on production and development, making it not practical to disclose the amount of contractual commitments.

The Company has an outstanding letter of guarantee in the amount of $70,000 (2011 -$70,000) that is required under the Regulations prescribed by the Ministry of Natural Resources for the future abandonment of gas wells.

The Company is currently in a dispute with the Ministry of Natural Resources (MNR). The MNR has alleged that the Company has improperly disposed of field fluids and the matter is ongoing. The Company does not anticipate any loss to arise from this claim, thus no amount has been recorded in the Company's financial statements.

**15. Financial instruments**

*Fair value*

The Company has various financial instruments including cash and cash equivalents, marketable securities, accounts receivable, accounts payable, accrued liabilities and amounts due to shareholders. Except for the marketable securities, book value approximates fair value due to their short-term maturity.

*Credit risk*

As the Company's accounts receivable were due from two customers, there is increased exposure as a result of this concentration. In order to reduce this risk, the Company prefers selling to high quality, investment grade customers.

*Liquidity risk*

All financial liabilities have maturity dates less than one year. Liquidity risk is mitigated by maintaining sufficient levels of working capital to satisfy repayment.

*Commodity risk*

Commodity risk is the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in commodity prices.

The Company is exposed to fluctuations in commodity prices for natural gas. Commodity prices are affected by many factors including supply, demand and the Canadian to U.S. dollar exchange rate. Commodity risk is managed by reducing production when prices are low.

*Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The Company is exposed to interest rate risk primarily through its floating interest rate cash reserve.

*Currency risk*

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is not exposed to any significant currency risk other than that embedded in the price of commodities.

**16. Capital management disclosures**

The Company's objectives when managing capital are to protect the Company's ability to continue as a going concern so that it can continue to provide an appropriate return to shareholders relative to the risk of the Company's mining exploration, natural gas properties and long-term investments.

The Company considers its capital structure to include shareholders' equity and long term debt. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets noted above. In order to maintain or adjust the capital structure, the Company may issue new shares, seek external financing or adjust its capital expenditures and other investment programs.

The Company does not have any externally imposed capital requirements. Its main objective is to ensure sufficiency of working capital to fund operations and investment activities. Working capital is defined as current assets less current liabilities. At March 31, 2012, the Company's working capital was $1,548,935 (2011 – $1,626,726).

**17. Statement of cash flows**

Interest received during the period was $2,355 (2011 -$26,003)
Income taxes paid during the period were $nil (2011 -$nil)
Interest paid during the period was $2,115 (2011 -$27).

**18. Comparative figures**

The Company has restated all prior period figures in accordance with IFRS.

**19. First time adoption of IFRS**

The Company adopted IFRS on March 31, 2011 with a retroactive transition date of April 1, 2010. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Under IFRS 1 "First Time Adoption of International Financial Reporting Standards", IFRS is applied retrospectively at the transition date with the offsetting adjustments to assets and liabilities generally included in the deficit.

These financial statements have been prepared in accordance with the accounting policies described in Note 4 and in accordance with the requirements of IFRS 1 which requires that the same policies be applied for all periods presented. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the reported financial position and results of operations of the Company.

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

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*Reconciliation of the statement of financial position as reported under Canadian GAAP and IFRS*

Presented below is a reconciliation of the Company's statement of financial position reported in accordance with Canadian GAAP to its statement of financial position in accordance with IFRS at the transition date.

| | CDN GAAP April 1, 2010 | Notes | Transition Adjustments | IFRS April 1, 2010 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 248,040 | | - | 248,040 |
| Marketable securities | 1,289,297 | | - | 1,289,297 |
| Accounts receivable | 144,799 | | - | 144,799 |
| Inventory | 48,240 | | - | 48,240 |
| Income taxes recoverable | 7,005 | | - | 7,005 |
| | 1,737,381 | | - | 1,737,381 |
| Property and equipment | 10,861,141 | | - | 10,861,141 |
| Land | 78,000 | (b) | 52,000 | 130,000 |
| Exploration and evaluation assets | 3,683,781 | (a) | (153,963) | 3,529,818 |
| | 16,360,303 | | (101,963) | 16,258,340 |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | 164,879 | | - | 164,879 |
| Current portion of long term debt | 16,008 | | - | 16,008 |
| Long term debt | 30,515 | | - | 30,515 |
| Future income taxes | 2,752,000 | ( c) | (25,500) | 2,726,500 |
| Provisions | 187,500 | | - | 187,500 |
| | 3,150,902 | | (25,500) | 3,125,402 |
| **Shareholders' equity** | | | | |
| Share capital | 2,468,832 | | - | 2,468,832 |
| Contributed surplus | 36,634 | | - | 36,634 |
| Accumulated comprehensive income | 110,489 | | 52,000 | 162,489 |
| Retained earnings | 10,593,446 | | (128,463) | 10,464,983 |
| | 13,209,401 | | (76,463) | 13,132,938 |
| | 16,360,303 | | (101,963) | 16,258,340 |

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

(Continued from previous page)

Presented below is a reconciliation of the Company's statement of financial position reported in accordance with Canadian GAAP to its statement of financial position in accordance with IFRS at March 31, 2011.

| | CDN GAAP March 31, 2011 | Notes | Transition Adjustments | IFRS March 31, 2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 170,229 | | - | 170,229 |
| Marketable securities | 1,396,231 | | - | 1,396,231 |
| Accounts receivable | 125,319 | | - | 125,319 |
| Inventory | 57,260 | | - | 57,260 |
| Prepaid expenses | 5,000 | | - | 5,000 |
| | 1,754,039 | | - | 1,754,039 |
| Property and equipment | 10,860,225 | | - | 10,860,225 |
| Land | 78,000 | (b) | 52,000 | 130,000 |
| Exploration and evaluation assets | 4,091,002 | (a) | (156,275) | 3,934,727 |
| | 16,783,266 | | (104,275) | 16,678,991 |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | 109,875 | | - | 109,875 |
| Income taxes payable | 3,131 | | - | 3,131 |
| Current portion of long term debt | 14,306 | | - | 14,306 |
| | 127,312 | | - | 127,312 |
| Future income taxes | 2,425,500 | ( c) | (26,100) | 2,399,400 |
| Provisions | 261,413 | | - | 261,413 |
| | 2,814,225 | | (26,100) | 2,788,125 |
| **Shareholders' equity** | | | | |
| Share capital | 2,468,832 | | - | 2,468,832 |
| Contributed surplus | 36,634 | | - | 36,634 |
| Accumulated comprehensive income | 481,174 | | 52,000 | 533,174 |
| Retained earnings | 10,982,401 | | (130,175) | 10,852,226 |
| | 13,969,041 | | (78,175) | 13,890,866 |
| | 16,783,266 | | (104,275) | 16,678,991 |

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

(Continued from previous page)

*Reconciliation of net income (loss) as reported under Canadian GAAP and IFRS:*

| | Notes | March 31, 2011 |
|---|---|---|
| Net income (loss) for the period under Canadian GAAP | | $ 495,755 |
| Basic and diluted earnings per share under Canadian GAAP | | 0.28 |
| Adjustments for differing accounting treatments: | | |
| Exploration and evaluation assets | | (2,312) |
| Deferred income taxes | | 600 |
| Net income (loss) for period under IFRS | | 494,043 |
| Basic and diluted income per share under IFRS | | 0.28 |

*Reconciliation of cash flows:*
The adoption of IFRS has had no impact on the cash flows of the Company. The changes made to the statement of operations and comprehensive income and the statement of financial position have resulted in no reclassification of amounts on the cash flow statement. Therefore, no reconciliations have been presented.

*Notes to the IFRS reconciliations above:*

(a) *Revaluation of exploration and evaluation assets*
Under Canadian GAAP the Company followed the full cost method of accounting whereby all acquisition and development costs relating to the projects were capitalized including an allocation for administrative overhead. However under IFRS, administrative and other overhead costs do not qualify for capitalization unless they are directly attributable to the development of the asset. As a result of the restriction on the capitalization of indirect overhead, the Company has recognized a transition adjustment as it has now reflected these as an operating expense.

The following were the amounts adjusted per the new accounting policy for general and administrative overhead: $153,963 cumulatively to April 1, 2010 and $2,312 for the year ended March 31, 2011.

(b) *Revaluation of land*
The Company has elected to value its land that it is holding for future development under property and equipment at its fair value. The increase in value up to its fair market value of $130,000 has been reflected in the earliest period presented in these financial statements with an offsetting increase to accumulated other comprehensive income.

(c) *Revaluation of future income tax liability*
As a result of the transition adjustments recorded at April 1, 2010 and March 31, 2011, the timing differences changed and as a result, the deferred income tax liability decreased by $26,100. This decrease was due to the fact that the accounting net book value in each case changed as a result of changes in the temporary differences resulting from the changes to the assets as described in notes (a) and (b) above. The tax book value remained the same, thus decreasing the liability.

As previously discussed, this is the Company's first set of financial statements under IFRS thus, the Company has applied the standards and interpretations under IFRS that were effective for annual periods commencing on or after January 1, 2011. IFRS 1 provides optional exemptions for first time adopters. As well, there are four mandatory exceptions where retrospective application of IFRS is not permitted.

The following is an explanation of how the optional exemptions under IFRS 1 that are applicable to the Company have been applied:

(a) *Share-based payment transactions*
A first time adopter may elect to apply IFRS 2 "Share-based Payment" to equity instruments that were granted on or before November 7, 2002 or to equity investments that were granted after November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005.

The Company has elected not to apply IFRS 2.

(b) *Property, plant and equipment*
The Company may elect to measure property, plant and equipment using one of the following methods: using the fair value at the date of transition to IFRS as its deemed cost, using Canadian GAAP cost or using a revaluation carried out under Canadian GAAP, if applicable.
The Company has elected to measure the property, plant and equipment at the cost determined using Canadian GAAP for IFRS at April 1, 2010.

(c) *Exploration and development costs for oil and gas properties in the development or production phase*
First-time adopters that account for oil and gas properties in cost centres that include all properties in a large geographical area may elect to measure exploration and evaluation assets and oil and gas assets in the development or production stage at the cost determined under Canadian GAAP.

The Company has elected to measure exploration and development costs for oil and gas properties at the cost determined using Canadian GAAP for IFRS at April 1, 2010.

(d) *Designation of previously recognized financial instruments*
Under IAS 39, the Company may elect to designate a financial asset at the date of transition to IFRS as available for sale or any financial asset or financial liability at fair value through profit or loss as long as it meets certain conditions.
The Company has elected to not designate a financial asset as available for sale at April 1, 2010.

# METALORE RESOURCES LIMITED

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended March 31, 2012 and 2011

(Continued from previous page)

*(e) Decommissioning liabilities included in the cost of property, plant and equipment IFRIC 1 "Changes in Existing Decommissioning,* Restoration and Similar Liabilities" requires changes in these liabilities to be adjusted against the cost of the asset it relates to. The adjusted depreciable amount is then depreciated prospectively over its remaining useful life. Being a first-time adopter the Company does not need to comply with these requirements for changes that occurred before the date of transition.

The Company is currently accounting for its provisions as described in this election, thus the Company has decided to not elect under IFRIC 1.

*(f) Investments in subsidiaries, jointly controlled entities and associates*
Under IAS 27 "Consolidated and Separate Financial Statements" when an entity prepares separate financial statements a first time adopter that accounts for investments in subsidiaries, jointly controlled entities and associates at cost shall measure these investments at one of the following amounts in its separate opening IFRS statement of financial position:

1. Cost determined in accordance with IAS 27 or
2. Deemed cost which shall be its fair value at the entity's date of transition to IFRS or previous GAAP carrying amount at that date

This section is not applicable as the Company does not have any subsidiaries or jointly controlled entities or associates.

The following optional exemptions are not applicable to the Company:

- Employee benefits
  - The Company has no defined benefit plans
- Cumulative translation differences
  - The Company has no foreign subsidiaries
- Compound financial instruments
  - The Company has no compound financial instruments
- Insurance contracts
  - The Company does not issue insurance contracts
- Leases
  - The Company has no applicable arrangements
- Assets and liabilities of subsidiaries, associates and joint ventures
  - The Company has no subsidiaries or associates
- Fair value measurement of financial assets or financial liabilities at initial recognition
  - The circumstances outlined in IFRS 1 do not apply to the Company, therefore the exemption is not applicable.
- Financial assets or intangible assets accounted for in accordance with IFRIC 12 "Service Concession Arrangements"
  - The Company is not a party to any service concession arrangements, therefore this exemption is not applicable
- Borrowing costs
  - The Company has no borrowings therefore this exemption is not applicable.
- Transfers of assets from customers
  - The Company has not transferred any assets from customers therefore this exemption is not applicable.

The following are mandatory exceptions to the retrospective application of other IFRSs, set out in IFRS 1.

*(a) De-recognition of financial assets and financial liabilities*
Non-derivative financial assets or non-derivative financial liabilities that were previously derecognized under Canadian GAAP due to a transaction that occurred before January 1, 2004, the Company can't recognize those assets and liabilities in accordance with IFRS. This exception is not applicable as the Company has no non-derivative financial assets or liabilities.

*(b) Hedge accounting*
This mandatory exemption is not applicable since the Company has never applied hedge accounting.

*(c) Non-controlling interests*
The following requirements shall be applied prospectively from the date of transition:

- Requirements regarding total comprehensive income is attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance
- Requirements regarding accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control and
- Requirements regarding accounting for a loss of control over a subsidiary, and the related requirements of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

This mandatory exemption is not applicable since the Company has no non-controlling interests.

*(d) Estimates*
A company's estimates under IFRS at the transition date, April 1, 2010. must be consistent with estimates made for the same date under Canadian GAAP unless there is objective evidence that those estimates were in error. No adjustments for estimates made by the Company have been made for this mandatory exemption.

*(e) Assets held for sale and discontinued operations*
The Company has no assets held for sale or discontinued operations. Therefore, no adjustment has been made for this mandatory exemption.

# METALORE RESOURCES LIMITED

## Management's Discussion & Analysis of Financial Results For the Fiscal Year ended March 31, 2012

*This Management's Discussion and Analysis of the financial and operating results of Metalore Resources Limited ("Metalore" or the "Company") should be read in conjunction with the Company's audited financial statements and related notes for the year ended March 31, 2012. The financial information in this MD&A is prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard 34 ("IAS 34"). Previously, Metalore's financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reconciliations have been made between GAAP and IFRS 1 in the audited financial statements. All amounts are stated in Canadian dollars unless otherwise indicated.* Additional information relating to the Company and the current Annual Information Form is available on SEDAR at www.sedar.com.

**CORPORATE PROFILE**

Metalore has been active in Mining Exploration for over sixty-five years and in Natural Gas Development for over fifty years. The company participated in early development of the Provost gas field in Alberta from 1956 through 1961 and has been the major player in developing the Norfolk gas field in Southwestern Ontario since 1964. Metalore pioneered state-of-the-art completion and fracturing technology in Ontario and this operation constitutes its core business and principal source of revenue.

For many years the consistent modus operandi of the Company has been to prioritize the allocation of operating income to (1) maintain capital integrity, (2) drill sufficient new wells to sustain or increase production, (3) examine and explore mining exploration prospects of especial merit and (4) continue paying annual cash dividends to shareholders.

***Metalore is unique in the junior resource sector. The company has diligently protected the equity of its Shareholders for the past forty years and has the lowest number of shares outstanding of any resource company listed on the Toronto Stock Exchange ("MET" on TSX).***

**OVERALL PERFORMANCE**

The company has consistently drilled its new wells on ultra wide spacing patterns to minimize the year to year decline and maximize longevity of production. Although gas prices have remained at unprofitable levels, compared to recent previous years, the Company still maintains the highest margins of any actively developing gas producer in Ontario.

The Company continues to maintain a strong balance sheet and working capital position.

**CURRENT DEVELOPMENTS**

**Natural Gas Development**

The company continues to maintain an extensive land portfolio of undrilled leases containing substantial "Proven Undeveloped" and "Probable" Natural Gas Reserves ("Silurian" formation), as currently updated at March 31, 2012, by Jim McIntosh Petroleum Engineering Ltd. This NI-51-101 regulatory compliant Reserve Report is filed for view on SEDAR. Although the company runs a highly efficient production operation, the present cost of leasing, licensing, surveying, drilling, casing, completing, fracturing, pipelining and maintenance is not ECONOMICALLLY VIABLE at prevailing NYMEX[1] standard prices of $2 to $3 per Mmbtu. Consequently, the Company does not contemplate further gas development until there is an improved trend in Natural Gas prices.

Management is considering a recent proposal, however, to farm-out the deeper ("Ordovician" and "Cambrian" formation) drilling prospects for oil (and gas) on parts of the Company's large lease holdings in the area.

**Gold Exploration**

The company conducted no further exploration on its Cedartree Lake properties during the 2012 fiscal year, pending completion of a comprehensive, regulatory compliant NI 43-101 Technical Report. The said report, which also included a "Summary of Indicated and Inferred Gold Resources" by Claude P. Larouche, Ing, was completed and filed on SEDAR (and on the Metalore website) on March 16, 2012, prior to the fiscal year end.

| **SELECTED ANNUAL INFORMATION** for the years ended: | **March 31, 2012** | **March 31, 2011** | **March 31, 2010** |
|---|---|---|---|
| **Statement of Income** | $ | $ | $ |
| Total Revenues | 961,789 | 1,204,593 | 1,067,120 |
| Operating expenses and royalties expense | (1,122,333) | (1,031,80) | (879,835) |
| Other income and taxes recovery (expense) | 243,565 | 321,255 | 231,480 |
| Net Income after taxes | 83,021 | 494,043 | 418,765 |
| Earnings per share (fully diluted) | 0.05 | 0.28 | 0.24 |
| **Statement of Cash Flows** | | | |
| Cash flow from operations | 235,435 | 425,779 | 373,199 |
| Cash flow from operations per share | 0.13 | 0.24 | 0.21 |
| **Accumulated Comprehensive Income** | | | |
| Accumulated gains & losses included in the balance sheet at the end of the year | 451,290 | 533,174 | 162,489 |
| **Total Assets** | 16,418,201 | 16,678,991 | 16,258,340 |
| Total Long Term Liabilities | - | - | 30,515 |
| Cash Dividends Per Share | .06 | .06 | .06 |

The comparability of Selected Annual Information set out above is affected by the same material factors as set out under "Overall Performance" and "Results of Operations" herein.

[1] Note: Metalore receives a "basis" premium (because of geographic location), plus a regulated "cost of service" proprietary premium in excess of the New York Mercantile Exchange price.

## RESULTS OF OPERATIONS

The Company had net income of $83,021 or $0.05 per share for the year ended March 31, 2012 compared to net income of $494,043 or $0.28 per share for the year ended March 31, 2011.

Revenue and expenses incurred during the period consist of:

1. The company had natural gas revenue of $873,709 for 173,286,033 cubic feet produced representing a decrease from $1,131,580 for 195,053,827 cubic feet produced during the 2011 fiscal year.
2. Investment & interest income of $85,488 (2011 - $69,058) increased due to a higher ratio of high dividend paying securities in its investment portfolio; all Goldstone (formerly Ontex) shares were liquidated in fiscal 2011.
3. Royalty expenses of $80,130 (2011 - $82,532) declined along with gas revenue.
4. Production expenses of $482,804 (2011 - $493,815) decreased only marginally on the statement because **a larger ratio of costs were allocated to expenses as capital expenditures (mining exploration) were curtailed**. Nevertheless, the Company implemented some austere, cost cutting measures, such as:
   (a) SONG waived its Technical and Consulting compensation for the final six months of the fiscal year.
   (b) The company laid off one of its three full time gas well field operators commencing December 31, 2011.
   (c) The company retained all liability insurance policies; however, collision coverage was not renewed on all seven company vehicles (one large and one small brine trucks, four medium pick-ups and one manager's Cherokee ).
   (d) The Company reduced the size of its Officers and Directors Liability Policy.
   (e) A number of other nominal office and field expenditures were reduced.
5. Administrative expenses of $252,792 (2011 – $177,603) increased due primarily to legal costs associated with completely re-writing the Company's Annual Information Form, Information Circular and IFRS accounting standards for regulation compliance.
6. Amortization expense of $299,428 (2011 - $276,485) The calculation of amortization is dependent on an annual evaluation of natural gas reserves by a professional engineer as described in note 7 accompanying the financial statements.

| CAPITAL RESOURCES & LIQUIDITY | March 31, 2012 | March 31, 2011 | March 31, 2010 |
|---|---|---|---|
| Cash | $453,900 | $170,229 | $ 248,040 |
| Current Assets (including cash) | 1,693,636 | 1,754,039 | 1,737,380 |
| Current Liabilities | 144,701 | 127,313 | 180,887 |
| Excess of Current Assets over Current Liabilities | 1,548,935 | 1,626,726 | 1,556,493 |

The Company's objectives when managing capital are to protect the Company's ability to continue as a going concern so that it can continue to provide an appropriate return to shareholders relative to the risk of the Company's mining exploration, natural gas properties and long-term investments.

The Company considers its capital structure to include shareholders' equity and long term debt. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets noted above. In order to maintain or adjust the capital structure, the Company may issue new shares, seek external financing or adjust its capital expenditures and other investment programs.

The Company does not have any externally imposed capital requirements. Its main objective is to ensure sufficiency of working capital to fund operations and investment activities. Working capital is defined as current assets less current liabilities. At March 31, 2012, the Company's working capital was $1,548,935 (2011 – $1,626,726).

As a Junior Mining Exploration Company that diligently protects Shareholder Equity, Metalore maintains a comfortable level of liquidity on its Balance Sheet.

## Fourth Quarter Review

The Company had an operating loss of ($110,129) or ($0.06) per share for the three months ended March 31, 2012 compared to net income of $263,749 or $0.15 per share for the three months ended March 31, 2011.

Revenue and expenses incurred during the period consist of:

1. Natural gas revenue of $171,829 (2011 - $209,982) shows a decrease due to low short term gas prices.
2. Investment & interest income of $15,362 (2011 - $15,619) is consistent with the prior year
3. Royalty expenses of $18,650 (2011 - $-2,268) The fourth quarter of the prior year was an adjustment to accruals earlier in the year.
4. Production expenses of $196,761 (2011 - $184,273) were higher in the fourth quarter but are somewhat lower due to implementation of austere cost cutting measures discussed previously herein.
5. Administrative expenses of $105,122 (2011 – $33,385) increased due primarily to legal fees associated with stock exchange regulation compliance.
6. Amortization expense of $97,792 (2011 - $111,485) reflects a closer estimation of expense in this year's quarterly statements.
7. Note: The company pays a minimum corporate tax; however, no tax on income is presently payable by the company because of exploration and development expenditures that are carried forward (details in Note 12, of the fiscal year 2012 Audited Financial Statements.

# METALORE RESOURCES LIMITED

MD&A (cont'd)

**SUMMARY OF QUARTERLY RESULTS**

| Quarter Ended | March 31 2012 | Dec 31 2011 | Sep 30 2011 | Jun 30 2011 | March 31 2011 | Dec 31 2010 | Sep 30 2010 | Jun 30 2010 |
|---|---|---|---|---|---|---|---|---|
| **Operating Revenue** | $252,292 | $ 205,686 | $ 265,015 | $ 238,796 | $209,982 | $ 333,239 | $ 278,927 | $ 309,809 |
| **Net Income (loss)** | (110,129) | 99,384 | 59,105 | 34,661 | 263,749 | 133,572 | 49,867 | 48,567 |
| **Earnings per share** | (0.06) | 0.06 | 0.03 | 0.02 | 0.15 | 0.08 | 0.03 | 0.03 |
| **Operating Cash flow per share** | (0.09) | 0.09 | 0.07 | 0.06 | (0.02) | 0.13 | 0.06 | 0.07 |
| **Dividends per share** | -- | 0.06 | -- | -- | -- | 0.06 | -- | -- |

**CONTRACTUAL OBLIGATIONS**

Report for the next five years

| Contractual Obligations | Less than 1 year | 1-3 years | 4-5 years | Total |
|---|---|---|---|---|
| Natural Gas Leases | $ 10,000 | $ 30,000 | $ 50,000 | $ 90,000 |
| Natural Gas Royalties[2] | $70,000 | $210,000 | $ 350,000 | $ 630,000 |
| Total Contractual Obligations | $80,000 | $240,000 | $ 400,000 | $ 720,000 |

Note: the Company also has an estimated Asset Retirement Obligation of $118,277 that will be incurred beyond the five year timetable.

**FINANCINGS**

There were no financings during the fiscal period ended March 31, 2012.

**FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities. It is the management's opinion that the Company is not exposed to abnormal interest, currency or credit risk arising from these financial instruments. Management expects to adequately meet its present and future working capital and exploration and development requirements with cash flow from operations.

**DISCLOSURE CONTROLS and PROCEDURES**

Management has assessed the effectiveness of the Company's disclosure controls and procedures used for the financial statements and MD&A at March 31, 2012. Although certain weaknesses are inherent with small office operations, management has implemented certain controls such as segregation of duties within critical departments, frequent reviews and regular preparations of reconciliations of transactions to ensure absence of material irregularities. Management has concluded that the disclosure controls are effective in ensuring that all material information required to be filed has been made known to them in a timely manner. The disclosure controls and procedures are designed to ensure effective information required to be disclosed pursuant to applicable securities laws are accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

The Audit Committee of the Board of Directors has reviewed and approved the accompanying financial statements for the period ended, March 31, 2012.

**REGULATION COMPLIANCE**

Metalore has complied with all filing requirements pursuant to National Instrument 51-101 (Standards for Disclosure for Oil and Gas Activities) by filing forms 51-101 F1, F2 and F3 with SEDAR.

**TRANSACTIONS WITH RELATED PARTIES**

All related party transactions have been recorded at the exchange amount that represented the amount of consideration established and agreed to by the related parties

a) The Company has an agreement with Southern Ontario Natural Gas Limited ("SONG"), a private company controlled by the Company's president, George W. Chilian, to provide technical and consulting services for the gas operations for an annual fee of $78,000 plus 10% of the Company's annual gas revenue in excess of $1,000,000. The fiscal 2012 expense charged by SONG amounted to $39,000 (2011 - $87,773). **In fiscal 2012 SONG voluntarily waived its contractual remuneration for the six month period from October 01. 2011 through March 31, 2012.** The Company and SONG also have a joint ownership (52% and 48% respectively) in natural gas properties in Houghton Township, Ontario. The Houghton battery has been shut in for the past five years due to a lack of market demand. As at March 31, 2012, the Company owed SONG $17,093 (2011 - $17,023) which is included in accounts payable and accrued liabilities.

b) During the period ended March 31, 2012, the Company paid the President and Chief Executive Officer $135,600 [2011 - $135,600] in respect of management services.

[2] Note: Natural Gas royalties are based upon minimum estimated Natural Gas production.

## SHAREHOLDER DIVIDEND POLICY

In the year 2000, Metalore introduced a policy to pay annual dividends to shareholders (subject to applicable law). Metalore paid its eleventh consecutive annual dividend on December 19, 2011, to all Shareholders of Record on November 27th. This payment of 6 cents per share was the same as for 2011.

## RISKS AND UNCERTAINTIES

### *Mining exploration risks*

The business of exploration for minerals involves a high degree of risk. Very few properties that are explored are ultimately developed into producing mines.

### *Hydrocarbon risks*

The hunt for and development of conventional non-renewable hydrocarbons is vulnerable to price variations, dry holes and ultimately depleted reservoirs.

### *Commodity Prices*

Even if Metalore's exploration programs are successful, factors beyond the control of the Company will affect the marketability of any resources discovered. Inflation, international economic and political trends, currency fluctuations, interest rates and worldwide production levels all have a bearing on commodity prices. The effect of these factors cannot accurately be predicted. The Company partially mitigates the price risk factor by selling most of its gas production at least several months ahead with forward strip contracts.

## AUDITOR, TRANSFER AGENT and REGISTRAR

The auditors of the Company are NPT LLP, Chartered Accountants of London, Ontario. The Transfer Agent and Registrar for the Common Shares of the Company is Computershare Trust Company of Toronto Canada.

## INTERNAL CONTROLS OVER FINANCIAL AND DISCLOSURE REPORTING

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Based on regular reviews of its internal control procedures during and at the end of the period covered by this MD&A, management believes its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

There have been no significant changes to the Company's internal control over financial reporting that occurred during 2012 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

The Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures ("**DC&P**") and the design of internal controls over financial reporting ("**ICFR**"). The objective is ensure that all transactions are properly authorized, identified and entered into the accounting system on a timely basis to minimize risk of inaccuracy, failure to fairly reflect transactions, failure to fairly record transactions necessary to present financial statements in accordance with GAAP, unauthorized receipts and expenditures, or the inability to provide assurance that unauthorized acquisitions or dispositions of assets can be detected. The Company's system of internal controls provides for the separation of duties for receiving, approving, coding and handling of invoices, entering transactions into the accounts.

The CEO and CFO evaluated the effectiveness of the Company's DC&P and ICFR as required by National Instrument 52-109 issued by the Canadian Securities Administrators. As at March 31, 2012, the CEO and the CFO evaluated the design and operation of the Company's DC&P as well as the design and operating effectiveness of the Company's ICFR. Based on that evaluation, the CEO and CFO concluded that the Company's DC&P and ICFR were effective as at March 31, 2012. The CEO and CFO also concluded that no material weaknesses existed in the design of the ICFR.

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2012 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

## CHANGES IN ACCOUNTING POLICIES

### *First time adoption of IFRS*

The Company adopted IFRS on March 31, 2011 with a retroactive transition date of April 1, 2010. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Under IFRS 1 "First Time Adoption of International Financial Reporting Standards", IFRS is applied retrospectively at the transition date with the offsetting adjustments to assets and liabilities generally included in the deficit.

These financial statements have been prepared in accordance with the accounting policies of the audited financial statements and in accordance with the requirements of IFRS 1 which requires that the same policies be applied for all periods presented. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the reported financial position and results of operations of the Company.

## CRITICAL ACCOUNTING ESTIMATES

The audited financial statements, including comparatives, have been prepared using International Financial Reporting Standards ("**IFRS**"). The preparation of 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 financial statements and the 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. Significant areas requiring the use of management estimates include, but are not limited to, the determination of carrying value of exploration and evaluation assets, the valuation of share-based compensation transactions, the valuation of purchase warrants issued on financings, deferred income tax assets and liabilities, and accrued liabilities and contingencies.

## FORWARD LOOKING STATEMENTS

This management discussion and analysis contains certain forward-looking statements relating but not limited to the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

## EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets include the acquisition costs and deferred exploration and evaluation expenditures of the Company's 'green fields' exploration properties.

Acquisition costs related to exploration properties are capitalized at fair value at the time of purchase. The acquisition costs are written off when an exploration and evaluation asset is disposed of through sale or abandonment.

Exploration and evaluation expenditures incurred on exploration properties are expensed until such time that a future economic benefit is more likely to be realized than not by the establishment of ore resources. Exploration and evaluation expenditures incurred subsequent to the establishment of commercially viable and technically feasible gold resources on a property are capitalized as an asset. Exploration and evaluation assets are not depreciated until the properties are in commercial production.

## SHARE-BASED COMPENSATION TRANSACTIONS

### *Stock options*

The fair value of stock options granted to directors, officers, employees and consultants is measured at grant date using the Black-Scholes valuation model using assumptions for risk□free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares, expected forfeitures and expected life of the options. The fair value of this share-based payment is recognized as a charge to the Statements of Net Loss (Earnings) and Comprehensive Loss (Earnings) with a corresponding credit to shareholders' equity on the Statement of Financial Position.

The fair value of stock options, subject to a vesting schedule, is recognized using the accelerated method. The fair value of each vested tranche is measured using Black Scholes using assumptions at the time of vesting.

Management is required to estimate forfeitures, and revise its estimates of the number of stock options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period.

### *Income taxes*

Income taxes are calculated using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for timing differences between the tax and accounting basis of assets and liabilities, and for the recognition of accumulated capital and non-capital losses, which in the opinion of management, are more likely than not to be realized before expiry.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The effect on deferred income tax assets and liabilities resulting from a change in enacted tax rates is included in income in the year in which the change is enacted or substantively enacted. Deferred income taxes related to flow-though share tax deductions are recognized in the year in which they are renounced.

### *Provisions*

Provisions are recognized for liabilities of uncertain timing when the Company has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized and treated as a separate asset when it is virtually certain that reimbursement will be received if the Company settles the obligation.

### *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company's balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall exploration and development strategy, diversifying risk, mitigation through preventive controls, and transferring risk to third parties.

***Fair Value***

The carrying values for primary financial instruments, including Cash and equivalents, Other receivables, and Accounts payable and Accrued liabilities approximate fair values due to their short-term maturities. The Company's exposure to potential loss from financial instruments relates primarily to its cash and equivalents held with Canadian financial institutions.

There have been no major or significant changes that have had an impact on the overall risk assessment of the Company during the period. The objectives and strategy for the exploration and evaluation asset portfolio remains unchanged.

The Company's exploration and development activities expose it to the following financial risks:

***Credit risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's exposure to credit risk is concentrated in two specific areas: the credit risk on operating balances including Other receivables, primarily comprised of Natural Gas Receipts recoverable, and Cash and equivalents held with Canadian financial institutions. The maximum exposure to credit risk is equal to the carrying values of these financial assets.

***Market risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign currency exchange rates, commodity prices, interest rates and liquidity. A discussion of the Company's primary market risk exposures, and how those exposures are currently managed, follows:

***Currency risk***

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's financial assets and liabilities and operating costs are principally denominated in Canadian dollars. The Company has historically had insignificant operations in United States ("US") dollars. The Company has no US dollar hedging program due to its minimal exposure to financial gain or loss as a result of foreign exchange movements against the Canadian dollar.

***Commodity price risk***

Commodity prices, and in particular gold spot prices, fluctuate and are affected by factors outside of the Company's control. The current and expected future spot prices have a significant impact on the market sentiment for investment in mineral exploration companies and may impact the Company's ability to raise equity financing for its ongoing working capital requirements.

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk is minimal as there are no outstanding loans or interest-bearing debts. The Company has not entered into any interest rate swaps or other active interest rate management programs at this time.

***Liquidity risk***

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity management is to ensure that there will be sufficient cash to meet all financial commitments and working capital obligations as they become due. To manage cash flow requirements, the Company maintains principally all its assets in cash and equivalents.

***Sensitivity Analysis***

The Company believes that the movements in investments held for trading that are reasonably possible over the next twelve-month period will not have a significant impact on the Company. The Company believes that its cash position and short term investments provide adequate liquidity to meet all of the Company's near-term obligations.

## CONTINGENT LIABILITY

The company maintains a surety bond in the amount of $70,000, which is the maximum required by the Ministry of Natural Resources as assurance for the abandonment of dry holes and or depleted wells.

## OUTSTANDING SHARE DATA

As at the date hereof and March 31, 2012, the Company had 1,775,035 common shares outstanding (fully diluted). There are presently no stock options or warrants outstanding.

Additional information related to the Company, including the Company's AIF, is available for view on SEDAR at www.sedar.com and at the Company's website located at www.metaloreresources.com.

**This MD&A is dated as of July 18, 2012** **John A. Ryan, CFO & Director**

# Metalore

## Pursuing the Dream