Report on

2011 Inspection of De Visser Gray LLP
(Headquartered in Vancouver, Canada)

Issued by the

Public Company Accounting Oversight Board

May 24, 2012

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT
PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2012-149
Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.

2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.

3. Board inspections encompass, among other things, whether the firm has failed to identify financial statement misstatements, including failures to comply with Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements, in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.
2011 INSPECTION OF DE VISSEY GRAY LLP

In 2011, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm De Visser Gray LLP ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.1/

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.2/ A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

1/ The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from January 24, 2011 to January 28, 2011. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

- **Number of offices**: 1 (Vancouver, Canada)
- **Ownership structure**: Limited liability partnership
- **Number of partners**: 4
- **Number of professional staff**: 9
- **Number of issuer audit clients**: 8

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3/ The Board's inspection was conducted in cooperation with the Canadian Public Accountability Board.

4/ "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

5/ The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements and internal control over financial reporting ("ICFR") of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.
Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"), or, as applicable, International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

In addition, inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may

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6/ This focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

7/ When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP or IFRS, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

8/ See AU 390, Consideration of Omitted Procedures After the Report Date, and AU 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report (both included among the PCAOB's interim auditing standards, pursuant to PCAOB
require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of two issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies. Those deficiencies included failures by the Firm to identify or appropriately address errors in the issuer's application of GAAP or IFRS, including, in some cases, errors that appeared likely to be material to the issuer's financial statements. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, Audit Documentation ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9 and Appendix A to AS No. 3, paragraph A28.

Rule 3200T), and PCAOB Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements ("AS No. 5"), ¶ 98.
For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

The deficiencies identified in both of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm at the time it issued its audit report, had not obtained sufficient competent evidential matter to support its opinions on the issuer's financial statements or ICFR. Those deficiencies were –

1. the Firm’s failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning the lack of disclosure of cumulative totals for a development stage enterprise;

2. the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning the accounting for warrants as a derivative;

3. the failure to evaluate the period end financial reporting process and internal control deficiencies and other indicators of potential material weaknesses;

4. the failure to perform sufficient audit procedures to test the issuer's rights to certain mineral properties and evaluate whether related costs were impaired;

5. the failure to perform sufficient audit procedures related to the valuation of stock options and warrants; and

6. the failure to perform sufficient audit procedures related to the acquisition of mineral property rights.

One of the deficiencies described above related to auditing an aspect of an issuer's financial statements that the issuer revised in a restatement subsequent to the primary inspection procedures.9/

9/ The Board inspection process did not include a review of any additional audit work related to the restatement.
B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I
PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT
PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.\textsuperscript{10/}

\textsuperscript{10/} In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.
April 9, 2012

PCAOB
1666 K Street, North West
Washington, DC 20006

Dear Sirs:


We are providing the following responses in respect to the draft report of inspection:

PART II – ISSUER A

a) Development Stage reporting issue

As previously communicated to PCAOB field inspectors, our position historically was that the issuer did not qualify as a development stage enterprise because its planned principal operations had already commenced, and therefore on that basis the supplemental 'cumulative from inception' disclosure envisioned under FAS 7 was not applicable. Additionally, it was our view that this was an item of financial statement disclosure not required in a submission of financial statements pursuant to Item 17 of Form 20-F. Under the Form 20-F Instructions at Item 17 (C) (2) the items of reconciliation to be included are 'material variations (from U.S. GAAP) in... accounting principles, practices and methods...'. In contrast, a presentation of 'cumulative from inception' figures is a mathematical exercise in pure disclosure involving no changes in accounting principles, practices and methods. In any event, the issuer did implement this additional disclosure in its 2010 annual financial statements. However, we point out that beginning in fiscal 2011, this Canadian reporting issuer was required to convert to IFRS and accordingly there is no longer any required US-GAAP note reconciliation. Consequently the cumulative totals disclosure requirement is no longer applicable to either this entity or any other similar related entity which we do or might deal with in the future.

b) Internal control over financial reporting

We do not dispute that there were some areas where audit documentation could have been more comprehensive. However, our position remains that there was no material lack of documentation related to any material component of ICFR which prevented us from issuing the unqualified ICFR opinion. Our understanding was that PCAOB was alerted to inspect this file because the issuer had restated the related financial statements and that this led to the ‘automatic’ presumption that there had to have been a material weakness in the ICFR. In our opinion, the nature of the restatement was very isolated and did not in any manner point to a material weakness in internal control. Our interpretation of the guidance materials available is that if there is a restatement for one reason or
another, this does not force one "unequivocally" to come to the conclusion that there is a material weakness in the ICFR. Since PCAOB’s inspection, we have updated our ICFR audit approach to incorporate the areas identified by PCAOB report i.e. specifically with regards to the evaluation of the issuer’s period-end financial reporting process and assessing whether the individual control deficiencies, in combination, were indicative of significant deficiencies or material weaknesses.

c) Mineral property rights

The law firm involved carried out a comprehensive title search and verification of title in October prior to the December fiscal year-end of the Company as part of the Company raising a substantial amount of funding in the equity markets (approximately $75,000,000). The amount of risk assumed by this law firm in providing this opinion would have been significant and the fact that the law firm is a well-recognized Canadian organization, provided us with what we felt was appropriate level of comfort. While we do not dispute that our documentation of the above findings could have been better, we don’t feel that this takes away from the fact that a reputable party carried out work surrounding title verification.

On the issue of our so-called failure to obtain other audit procedures other than inquiring of and obtaining representations from management regarding the potential impairment of the property, we don’t dispute this. However, we point out that, absent the completion of bankable feasibility study, the issue (and ourselves) was precluded from obtaining definitive evidence in respect to the carrying value of the deferred costs in question. Based on this understanding of timelines involved in the mineral exploration process, Canadian accounting standards have long allowed for the continued deferral of such costs as long as other indicators suggest that an impairment has not occurred. Those factors, external to the opinion of management, include a Company’s market capitalization and continued capacity to raise equity financing relating to planned expenditures on the project in question. In the case of the issuer, all evidence in these respects was clearly persuasive. In addition, while management is not likely to be the most unbiased party involved, it is responsible for planning and carrying out exploration work and its intentions must be determined and understood. In light of the fact that management of this reporting issuer had no known biases to overstate the costs capitalized to mineral properties for their own personal benefits (i.e. there are no compensation arrangements designed around financial performance of the company for any party of management or of the Board of Directors), we maintain that relying on management’s representations in these unique industry circumstances is not necessarily unjustified.
ISSUER B

a) Accounting for warrants issued with common stock

We concur with the finding on technical accounting basis and when so advised of this matter the issuer elected to restate and re-file its 2010 annual financial statements and 20-F. The financial statements are the responsibility of management and we had no objection to reissuing our audit opinion on these revised and restated financial statements. To explain the technical issue briefly, the derivative liability identified here under U.S. GAAP was share purchase warrants denominated in Canadian dollars, while the functional currency of the issuer as a whole was the US dollar. The derivative identified existed solely due to this difference in currencies.

From an auditing perspective our view is that no material misstatement occurred here in the sense that the views of the expected users of the financial statements could be influenced significantly by the omission of this disclosure in the US GAAP reconciliation. Under Canadian GAAP then in effect, such warrants were appropriately recorded as equity and were not subject to revaluation subsequent to issuance.

In TSC Industries v. Northway, Inc. (1976) the U.S. Supreme Court held that a fact is material if there is "a substantial likelihood that the...fact would be viewed by the reasonable investor as having significantly altered the 'total mix' of information made available." We do not believe that initial omission of this disclosure resulted in a qualitatively material difference to the financial statements taken as a whole. However, such a determination is subjective and involves the use of professional judgment, the exercise of which is clearly not contemplated in this PCAOB review process.

b) Fair value measurements of stock options and warrants

We generally concur on these largely technical matters but point out that the contractual life was chosen for two reasons: 1) in our view the limited small number of option holders involved provides too small a basis from which to derive an objective, statistical inference, and 2) the result derived using a longer life generally is more conservative, and provides the larger expense figure. We felt more comfortable with a more conservative approach given the inherent measurement uncertainty in this area.

In respect to the accuracy of historical stock prices and the accuracy of web-based calculators, we had no basis to suspect these sources of evidence as they were arms-length and independent of the Company.

c) Mineral property interest

We concur but point out that verification of all claims was subsequently obtained directly from the government of Manitoba and a final copy of the agreement, signed by all parties, was obtained from the issuer.
We would like to point out that officials of the Canadian audit regulator (CPAAB) were evidently under the impression that our firm policy was to verify 100% of all mineral property interests held; however, this was never the case as such an approach is impracticable. Our approach in the area, and in all areas, involves following procedures informed by, and in the context of, professional judgment. Further, we advise that we have now revised our approach to the calculation of materiality such that we would have determined it currently to be much higher for this particular engagement, such that potentially this entire property interest may well have been considered immaterial.

CONCLUDING COMMENTS

We wish all of our responses to SECTION A items to remain public for the purpose of the PCAOB’s final report. We understand our responses to SECTION B will not appear in the PCAOB’s final report which is going to be made public.

If you have any questions, please contact our firm.

Yours truly,

De Vissers Gray LLP

DE VISSE GRAY LLP