



# **ALTO VENTURES LTD.**

*(An Exploration Stage Company)*

## **CONDENSED INTERIM FINANCIAL STATEMENTS**

**For the six-month periods ended December 31, 2011 and 2010**

*(Unaudited – Prepared by Management)*

**Canadian Funds**

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**NOTICE OF NO REVIEW BY AUDITOR**

In accordance with National Instrument 51 – 102 *Continuous Disclosure Obligations* of the Canadian Securities Administrators **WE HEREBY GIVE NOTICE THAT** the condensed financial statements that follow this notice have not been reviewed by the Company's auditors.

# Alto Ventures Ltd

(An Exploration Stage Company)

## Condensed Interim Statements of Financial Position

As at

(Canadian Funds)

(Unaudited)

| ASSETS                                      | December 31, 2011 | June 30, 2011<br>(Audited) |
|---|-------------------|----------------------------|
| Current                                     |                   |                            |
| Cash  | \$ 158,561        | \$ 302,226                 |
| Short-term investment                       | 400,000           | 2,000,000                  |
| Restricted cash                             | 590,935           | -                          |
| Receivables                                 | 146,098           | 218,830                    |
| Marketable Securities (Note 9)              | 309,864           | 401,806                    |
| Due from joint venture option partner       | 200,000           | 9,339                      |
| Quebec exploration tax credit               | 168,994           | 168,994                    |
| Prepays and Deposits                        | 54,630            | 108,601                    |
|   | 2,029,082         | 3,209,796                  |
| Exploration and Evaluation Assets (Note 11) | 7,683,655         | 6,550,643                  |
| Equipment (Note 10)                         | -                 | 1,649                      |
|   | \$ 9,712,737      | \$ 9,762,088               |
| <b>LIABILITIES</b>                          |                   |                            |
| Current                                     |                   |                            |
| Accounts payable and accrued liabilities    | \$ 63,499         | \$ 336,328                 |
| Due to related parties (Note 13a)           | 31,535            | 11,219                     |
| Exploration advances payable (Note 7)       | 217,461           | 168,302                    |
|   | 312,495           | 515,849                    |
| Commitment to issue shares                  | 22,500            | -                          |
| <b>SHAREHOLDERS' EQUITY</b>                 |                   |                            |
| Share Capital - (Note 12)                   | 18,284,837        | 18,077,970                 |
| Contributed Surplus – Options (Note 12)     | 1,289,188         | 1,279,841                  |
| Contributed Surplus – Warrants (Note 12)    | 2,096,944         | 2,068,140                  |
| Other comprehensive income (loss)           | (88,139)          | 27,428                     |
| Deficit                                     | (12,205,088)      | (12,207,140)               |
|   | 9,377,742         | 9,246,239                  |
|   | \$ 9,712,737      | \$ 9,762,088               |

Going Concern (Note 1)

Commitments (Note 16)

Subsequent Events (Note 17)

Approved and authorized by the Board of Directors on February 22, 2012:

“Richard Mazur”, Director

“Marian Koziol”, Director

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

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Condensed Interim Statements of Operations

For the six-month period ended December 31, 2011

Canadian Funds

(Unaudited)

|   | Three-month<br>period ended<br>December 31,<br>2011 | Three-month<br>period ended<br>December 31,<br>2011 | Six-month<br>period ended<br>December 31,<br>2011 | Six-month<br>period ended<br>December 31,<br>2010 |
|---|---|---|---|---|
| <b>Expenses</b>   |   |   |   |   |
| Amortization  | \$ -  | \$ -  | \$ -  | 707   |
| Bad debt recovery                                       | -   | (65,000)  | -   | (65,000)  |
| Consulting Fees   | 270   | 10,527  | 16,790  | 15,027  |
| Corporate Administrative Services                       | 3,000   | 5,000   | 6,000   | 15,147  |
| Directors Fees  | 9,000   | 14,000  | 18,000  | 26,000  |
| Investor and Shareholder Relations                      | 24,453  | 19,331  | 52,910  | 33,354  |
| Legal, accounting and audit fees                        | 60,774  | 67,038  | 126,181   | 94,815  |
| Mineral property write-downs                            | 10,475  | -   | 14,850  | 1,346   |
| Office Administration and Miscellaneous                 | 39,804  | 47,082  | 74,005  | 82,342  |
| Salaries and Wages                                      | 8,704   | 18,925  | 13,836  | 38,291  |
| Stock based compensation                                | 2,119   | -   | 9,347   | -   |
| Transfer Agent and Filing Fees                          | 12,141  | 4,009   | 13,732  | 5,787   |
| Travel and Promotion                                    | 10,428  | 6,817   | 12,839  | 8,747   |
|   | <b>181,168</b>                                      | <b>127,729</b>                                      | <b>358,490</b>                                    | <b>256,563</b>                                    |
| <b>Other (Income) Expense</b>                           |   |   |   |   |
| Interest income   | (1,105)   | (1,692)   | (5,565)   | (3,418)   |
| Management fee  | (10,936)  | (22,777)  | (21,467)  | (30,732)  |
| Write-down of equipment                                 | -   | -   | 1,650   | -   |
|   | <b>(12,041)</b>                                     | <b>(24,469)</b>                                     | <b>(25,382)</b>                                   | <b>(34,150)</b>                                   |
| <b>Loss for the Period</b>                              | <b>169,127</b>                                      | <b>103,206</b>                                      | <b>333,108</b>                                    | <b>222,413</b>                                    |
| Deficit - Beginning of Period                           | <b>12,035,961</b>                                   | <b>11,417,841</b>                                   | <b>11,871,980</b>                                 | <b>11,298,688</b>                                 |
| <b>Deficit – End of Period</b>                          | <b>\$ 12,205,088</b>                                | <b>\$ 11,521,101</b>                                | <b>\$ 12,205,088</b>                              | <b>\$ 11,521,101</b>                              |
| Loss per share  |   |   |   |   |
| - Basic and diluted                                     | <b>\$0.01</b>                                       | <b>\$0.01</b>                                       | <b>\$0.02</b>                                     | <b>\$0.02</b>                                     |
| Weighted Average Number of Common Shares<br>Outstanding | <b>19,405,634</b>                                   | <b>12,576,839</b>                                   | <b>19,215,090</b>                                 | <b>12,311,247</b>                                 |

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

## Alto Ventures Ltd.

(An Exploration Stage Company)

### Condensed Interim Statements of Comprehensive Loss

For the six-month period ended December 31, 2011

Canadian Funds

(Unaudited)

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|  | <b>Three month<br/>period ended<br/>December 31,<br/>2011</b> | Three month<br>period ended<br>December 31,<br>2010 | <b>Six month<br/>period ended<br/>December 31,<br/>2011</b> | Six month<br>period ended<br>December 31,<br>2010 |
|--|---|---|---|---|
| <b>Loss for the period</b>                       | <b>\$ 169,127</b>   | \$ 103,260  | <b>\$ 333,108</b>   | 222,413   |
| Unrealized loss on available for sale securities | <u>(13,724)</u>   | 146,222   | <u>115,567</u>  | <u>(57,472)</u>                                   |
| <b>Comprehensive loss for the period</b>         | <b>\$ 155,403</b>   | \$ 249,482  | <b>\$ 448,675</b>   | \$ 164,941  |

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

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Condensed Interim Statements of Cash Flows

For the six-month period ended December 31,

Canadian Funds

(Unaudited)

| <b>Cash Resources Provided By (Used In)</b>                    | 2011              | 2010                |
|--|-------------------|---------------------|
| <b>Operating Activities</b>                                    |                   |                     |
| Loss for the period  | \$ (333,108)      | \$ (222,413)        |
| Items not affecting cash:                                      |                   |                     |
| Amortization   | -                 | 707                 |
| Resource property costs written off                            | 14,850            | 1,346               |
| Stock based compensation                                       | 9,347             | -                   |
| Marketable securities received in exchange for debt settlement | -                 | (225,000)           |
| Write-down of equipment  | 1,650             | -                   |
| Changes in non-cash working capital:                           |                   |                     |
| Decrease (increase) in accounts receivable                     | 72,732            | 11,368              |
| Decrease (increase) in prepaid expense                         | 53,971            | 11,001              |
| Increase (decrease) in due to related parties                  | 20,316            | (25,341)            |
| Increase (decrease) in accounts payable                        | (292,614)         | (74,780)            |
| Net cash used in operating activities                          | (452,856)         | (523,112)           |
| <b>Investing activities</b>                                    |                   |                     |
| Joint venture contributions and recoveries                     | 73,167            | 451,780             |
| Mineral property expenditures                                  | (1,421,372)       | (428,759)           |
| Mineral property option receipts                               | 55,000            | 50,000              |
| Restricted cash  | (590,935)         | -                   |
| Short-term investments   | 1,600,000         | -                   |
| Net cash provided by (used in) investing activities            | (284,140)         | 73,021              |
| <b>Financing activities</b>                                    |                   |                     |
| Share issuance costs   | (41,169)          | (119,260)           |
| Proceeds from private placements                               | 634,500           | 1,622,500           |
| Net cash provided by investing activities                      | 593,331           | 1,503,240           |
| <b>Net decrease in Cash and Cash Equivalents</b>               | <b>(143,665)</b>  | <b>1,053,149</b>    |
| Cash and cash equivalents - Beginning of Period                | 302,226           | 1,052,369           |
| <b>Cash and Cash Equivalents - End of Period</b>               | <b>\$ 158,561</b> | <b>\$ 2,105,518</b> |

*Supplementary Disclosure of Cash Flow Information (Note 15)*

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

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Condensed Interim Statements of Changes In Equity

For the six-month period ended December 31,

Canadian Funds

(Unaudited)

|  | Share capital<br>(Number of<br>Shares) | Share capital<br>(Amount)<br>\$ | Contributed<br>Surplus -<br>Warrants<br>\$ | Contributed<br>Surplus -<br>Options<br>\$ | Accumulated<br>Other<br>Comprehensive<br>Income<br>\$ | Deficit<br>\$ | Total<br>\$ |
|--|--|---------------------------------|--|---|---|---------------|-------------|
| June 30, 2010  | 12,045,547                             | 15,949,673                      | 955,777                                    | 1,043,724                                 | 140,080   | (11,298,688)  | 6,790,566   |
| Shares issued for mineral<br>property                                  | 5,000                                  | 2,500                           | -  | -   | -   | -             | 2,500       |
| Share issuance costs   | -                                      | (140,375)                       | 21,115                                     | -   | -   | -             | (119,260)   |
| Other comprehensive income   | -                                      | -                               | -  | -   | 57,472  | -             | 57,472      |
| Units issued for cash pursuant<br>to flow through private<br>placement | 2,150,000                              | 898,702                         | 176,298                                    | -   | -   | -             | 1,075,000   |
| Units issued for cash pursuant<br>to private placement                 | 417,000                                | 174,306                         | 34,194                                     | -   | -   | -             | 208,500     |
| Units issued for cash pursuant<br>to private placement                 | 662,000                                | 279,058                         | 51,942                                     | -   | -   | -             | 331,000     |
| Net loss for the period  | -                                      | -                               | -  | -   | -   | (222,413)     | (222,413)   |
| December 31, 2010  | 15,279,547                             | 17,163,864                      | 1,239,326                                  | 1,043,724                                 | 197,552   | (11,521,101)  | 8,123,365   |
| Units issued for cash pursuant<br>to private placement                 | 3,559,000                              | 1,066,881                       | 712,619                                    | -   | -   | -             | 1,779,500   |
| Units issued for cash pursuant<br>to private placement                 | 176,000                                | 52,760                          | 35,240                                     | -   | -   | -             | 88,000      |
| Shares issued for mineral<br>properties                                | 10,000                                 | 7,500                           | -  | -   | -   | -             | 7,500       |
| Stock-based compensation   | -                                      | -                               | -  | 236,117                                   | -   | -             | 236,117     |
| Share issuance costs   | -                                      | (213,035)                       | 80,955                                     | -   | -   | -             | (132,080)   |
| Future income tax on flow-<br>through share renouncement               | -                                      | (335,150)                       | -  | -   | -   | -             | (335,160)   |
| Other comprehensive income   | -                                      | -                               | -  | -   | (170,124)   | -             | (170,124)   |
| Net loss for the year  | -                                      | -                               | -  | -   | -   | (350,879)     | (350,879)   |
| June 30, 2011  | 19,024,547                             | 17,742,810                      | 2,068,140                                  | 1,279,841                                 | 27,428  | (11,871,980)  | 9,246,239   |
| Units issued for cash pursuant<br>to private placement                 | 1,060,000                              | 190,800                         | -  | -   | -   | -             | 190,800     |
| Units issued for cash pursuant<br>to private placement                 | 2,340,000                              | 421,200                         | -  | -   | -   | -             | 421,200     |
| Share issuance costs   | -                                      | (69,973)                        | 28,804                                     | -   | -   | -             | (41,169)    |
| Stock-based compensation   | -                                      | -                               | -  | 9,347                                     | -   | -             | 9,347       |
| Other comprehensive income   | -                                      | -                               | -  | -   | (115,567)   | -             | (115,567)   |
| Net loss for the period  | -                                      | -                               | -  | -   | -   | (333,108)     | (333,108)   |
| December 31, 2011  | 22,424,547                             | 18,284,837                      | 2,096,944                                  | 1,289,188                                 | (88,139)  | (12,205,088)  | 9,377,742   |

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

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

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### 1. Going Concern and Nature of Operations

Alto Ventures Ltd. (“the Company”) is engaged in the acquisition, exploration and development of Canadian gold projects. The head office, registered address, and records office of the Company are located at Suite #910 – 475 Howe Street, Vancouver, British Columbia V6C 2B3.

The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether its properties contain economically recoverable ore reserves. The Company has not generated any revenues from its operations to date and consequently is considered to be in the exploration stage. The amounts shown as mineral properties and deferred costs represent expenditures incurred to date, less amounts written off, and do not necessarily represent present or future values. The recoverability of the carrying amounts for mineral properties is dependent upon raising financing, the sale or joint venturing of the mineral properties, and/or the attainment of profitable operations.

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Several adverse conditions cast substantial doubt on the validity of this assumption. The Company continues to incur operating losses, has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to conduct further exploration and development of its mineral property projects. The Company’s ability to continue as a going concern is dependent upon its ability to obtain the financing necessary to complete its mineral projects by the issuance of share capital or through joint ventures, and to realize future profitable production or proceeds from the disposition of its mineral interests. At December 31, 2011, the Company has working capital of \$1,716,587, incurred losses for the quarter of \$333,108 and has an accumulated deficit of \$12,205,088.

Management plans to continue to secure the necessary financing through a combination of the issue of new equity instruments and entering into joint venture arrangements. However, there is no assurance that the Company will be successful in these actions. These financial statements do not give effect to adjustments to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

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### 2. Basis of Preparation and adoption of IFRS

#### *Statement of Compliance*

These unaudited condensed interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting and IFRS 1 – First-time Adoption of IFRS.

The preparation of these unaudited condensed interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles (“GAAP”). The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at July 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 18.



# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

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### 2. Basis of Preparation – *continued*

#### *Basis of measurement*

These unaudited condensed interim financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. In addition, these unaudited condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

#### *Use of Estimates*

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates. The unaudited condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout these financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include, but are not limited to, the recoverability of receivables, impairment of exploration and evaluation assets, valuation and depreciation of property, plant and equipment and mining interests, valuation of share-based payments and recognition of deferred income tax amounts.

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### 3. Significant Accounting Policies

#### a) Exploration and Evaluation Expenditures

Direct costs related to mineral property acquisition, exploration and development are capitalized by project. When the technical and commercial viability of a mineral resource have been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the units of production method on commencement of commercial production

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Mineral properties are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Although the Company has taken steps to verify ownership of mineral interests, there are certain inherent risks due to the difficulties of determining and obtaining clear title to the claims as well as the potential for problems arising from the frequently ambiguous conveyancing history of many mineral interests.

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

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### 3. Significant Accounting Policies - *continued*

#### b) Impairment

The Company's assets are reviewed for indication of impairment at each balance sheet date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit, exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use.

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized on the statement of loss.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

#### c) Stock-based compensation

The Company grants stock options to directors, officers, employees and consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model and is recognized over the vesting period of the related options. Consideration paid for the shares on the exercise of stock options is credited to share capital

#### d) Equipment

Equipment is recorded at cost less accumulated amortization.

Amortization is recorded on a declining balance basis at the following annual rates:

|                       |     |
|-----------------------|-----|
| Computer equipment    | 45% |
| Exploration equipment | 30% |
| Vehicles              | 30% |
| Office equipment      | 20% |

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

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### 3. Significant Accounting Policies - *continued*

#### e) Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash with maturities of three months or less when purchased.

#### f) Income taxes

Tax expense consists of current and deferred tax expense. Tax expense is recognized in the statement of loss.

Current tax expense is the expected tax payable on the taxable income for the period, using the tax rates enacted or substantively enacted at the period end, adjusted for amendments to tax payable with regards to the previous year.

Deferred taxes are recorded using the liability method. Under the liability method, deferred tax assets are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in rates is recognized in income in the period that the substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future tax profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### g) Quebec Exploration Tax Credit receivable

The Company is entitled to refundable mining tax credits on certain mining exploration expenditures incurred in Quebec. The Company recognizes amounts as a receivable and reduces the carrying value of mineral properties when the amount to be received can be reasonably estimated and collection is reasonably assured.

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

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### 3. Significant Accounting Policies - *continued*

#### h) Flow-Through Shares

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures by the Company.

Proceeds from the issuance of flow-through shares need to be allocated between the offering of the flow-through share and the premium paid for the implied tax benefit received by the investors as a result of acquiring the flow-through shares. The calculated tax benefit is recognized as a liability until the Company renounces the expenditures, at which point the liability is reversed and recorded as a tax recovery on the statement of loss.

The Company records a deferred tax liability when the Company makes the expenditures. At the time of recognition of the deferred tax liability, an offsetting entry is made to tax expense.

#### i) Provision for environmental rehabilitation

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision incurred in the period. Discount rates, using a pre-tax rate that reflects the time value of money, are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. The increase in the provision due to the passage of time is recognized as interest expense.

#### j) Joint Venture Accounting

A portion of the Company's exploration activities are conducted jointly with others when the Company enters into agreements that provide for specified percentage interests in mineral properties. Joint venture accounting, which reflects the Company's proportionate interest in mineral properties is applied by the Company only when the parties enter into formal comprehensive agreements for ownership and mining participation terms.

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

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### 3. Significant Accounting Policies - *continued*

#### k) Financial Instruments

At initial recognition, the company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Loans and receivables: Cash and cash equivalents and loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables.

Available for sale: Available-for-sale assets are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available for sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

Financial liabilities at amortized cost: Financial liabilities at amortized cost are comprised of trade payables and are included in current liabilities due to their short-term nature.

Financial instruments include cash and cash equivalents, available for sale investments, receivables (including amounts receivable from joint venture and option partners), accounts payable and accrued liabilities (including amounts payable to joint venture partners) and amounts due to related parties. The Company has designated each of its significant categories of financial instruments as follows:

|  |                       |
|--|-----------------------|
| Cash and cash equivalents                | Loans and receivables |
| Short term investments                   | Loans and receivables |
| Marketable securities                    | Available-for-sale    |
| Accounts receivable                      | Loans and receivables |
| Amounts due from option partner          | Loans and receivables |
| Accounts payable and accrued liabilities | Other liabilities     |

Amounts due to and from related parties are carried at amortized cost. Fair value adjustments, if any, are not reasonably determinable by management as comparable interest rate and risk profiles are not available. Fair value measurement disclosure includes classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The fair value of the Company's marketable securities financial instrument constitutes a Level 1 fair value measurements.

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# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

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### 4. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares. Further information relating to capital management is disclosed in Note 1.

In the management of capital, the Company includes the components of shareholders' equity (through private placements) as well as cash and cash equivalents, receivables, investments and investment tax credit receivable balances. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

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### 5. Management of Financial Risk

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

#### *Interest rate risk*

The Company has no material exposure at December 31, 2011 to interest rate risk through its financial instruments.

#### *Sensitivity analysis*

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

Cash and cash equivalents and short-term investments include deposits, which are at variable interest rates.

Sensitivity to a plus or minus 1% change in rates would affect net loss by \$11,495 annually. The Company does not hold any balances in foreign currencies to give rise to exposure to foreign exchange risk.

#### *Currency Risk*

As at December 31, 2011, all of the Company's cash were held in Canadian dollars, the Company's measurement currency. The Company has no operations in foreign jurisdictions at this time and as such has no currency risk associated with its operations.

#### *Credit risk*

The Company has some cash balances and no interest-bearing debt. The Company has no significant concentrations of credit risk arising from operations. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by Canadian financial institutions with which it keeps its bank accounts and management believes the risk of loss to be remote.

## **Alto Ventures Ltd.**

*(An Exploration Stage Company)*

### **Notes to the Condensed Interim Financial Statements**

For the Six-Month Period Ended December 31, 2011

*(Canadian Funds)*

*(Unaudited)*

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#### **5. Management of Financial Risk - continued**

Accounts and other receivables consist of goods and services tax due from the Federal Government of Canada, Quebec exploration tax credits receivable, and amounts due from joint venture and option partners for funds advanced for exploration.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. Management believes the risk to be minimal.

##### *Liquidity Risk*

The Company manages liquidity risk by maintaining sufficient cash and cash equivalent balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. As at December 31, 2011, the Company had a cash balance of \$1,149,496 (including restricted cash of \$590,935 reserved for exploration expenditures) (June 30, 2011 - \$2,302,226) to settle current liabilities of \$312,495 (June 30, 2011 - \$515,849) The Company's payables may be less than face. Further information relating to liquidity risk is disclosed in Note 1.

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#### **6. Receivables**

Accounts receivable balance consist of \$47,068 (June 30, 2011 - \$126,794) in HST due from the Federal Government, \$95,282 (June 30, 2011 - \$82,754) due from the Quebec Government for QST, and \$3,748 (June 30, 2011 - \$9,282) in accrued term deposit interest.

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#### **7. Exploration advances payable**

The Company has received exploration advances of \$217,461 (June 30, 2011 - \$168,302) from Next Gen to be spent on the Destiny mineral property pursuant to the joint venture agreement. *(See Note 11a)*

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#### **8. Accounts payable and accrued liabilities**

The Company's accounts payable and accrued liabilities consist of \$62,034 (June 30, 2011 - \$292,328) in accounts payable and \$33,000 (June 30, 2011 - \$44,000) in accrued liabilities.

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## Alto Ventures Ltd.

(An Exploration Stage Company)

### Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

#### 9. Marketable Securities – Available for Sale

| Company   | Shares           | December 31, 2011     |    |
|---|------------------|-----------------------|----|
|   |                  | Market Value          | \$ |
| Foundation Resources Inc. (FDN - TSXV)          | 1,000,000        | <b>110,000</b>        |    |
| Prodigy Gold Inc. (PDG – TSXV) <sup>(1)</sup>   | 55,557           | <b>46,114</b>         |    |
| Wescan Goldfields Inc. (WGF – TSXV)             | 3,050,000        | <b>137,250</b>        |    |
| Pacific North West Capital Corp. (PFN – TSX- T) | 150,000          | <b>16,500</b>         |    |
|   | <u>4,255,557</u> | <u><b>309,864</b></u> |    |

| Company   | Shares           | June 30, 2011         |    |
|---|------------------|-----------------------|----|
|   |                  | Market Value          | \$ |
| Foundation Resources Inc. (FDN - TSXV)          | 1,000,000        | <b>120,000</b>        |    |
| Prodigy Gold Inc. (PDG – TSXV) <sup>(1)</sup>   | 55,557           | <b>30,556</b>         |    |
| Wescan Goldfields Inc. (WGF – TSXV)             | 3,050,000        | <b>228,750</b>        |    |
| Pacific North West Capital Corp. (PFN – TSX- T) | 75,000           | <b>22,500</b>         |    |
|   | <u>4,180,557</u> | <u><b>401,806</b></u> |    |

<sup>(1)</sup> Kodiak Exploration Ltd. changed their name to Prodigy Gold Inc.

The shares owned by the Company represent minor ownership in each of the companies in the above schedule. During the six-month period ended December 31, 2011, the Company received 75,000 shares relating to a joint venture mineral property agreement with PFN.

#### 10. Equipment

|                         |                  |                          |                   | December 31, 2011 |          |
|-------------------------|------------------|--------------------------|-------------------|-------------------|----------|
|                         | Cost             | Accumulated Amortization | Write-down        | Net Book Value    |          |
| Computer equipment      | \$ 22,539        | \$ 20,890                | \$ (1,649)        | \$                | -        |
| Furniture and equipment | 1,676            | 1,676                    | -                 |                   | -        |
|                         | <u>\$ 24,215</u> | <u>\$ 22,566</u>         | <u>\$ (1,649)</u> | <u>\$</u>         | <u>-</u> |



# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 11. Exploration and Evaluation Assets

The following tables show the activity by property from June 30, 2010 to June 30, 2011 and to December 31, 2011:

|                              | June 30, 2011 | Acquisition | Deferred    | Tax Credits,<br>Option Payments,<br>JV Recovery | Recovered<br>Excess/<br>Write-Downs | December 31,<br>2011<br>Total |
|------------------------------|---------------|-------------|-------------|---|-------------------------------------|-------------------------------|
|                              | Total         | Cost        | Exploration |   |                                     | Total                         |
|                              | \$            | \$          | \$          | \$  | \$                                  | \$                            |
| Alcudia                      | 192,513       | -           | -           | -   | -                                   | 192,513                       |
| Coldstream                   | 1,361,329     | -           | 598,755     | -   | -                                   | 1,960,084                     |
| Cote-Archie Lake             | 169,757       | -           | -           | -   | -                                   | 169,757                       |
| Three Towers                 | 403,629       | -           | -           | -   | -                                   | 403,629                       |
| Destiny                      | 2,447,756     | -           | 214,670     | (288,294)                                       | -                                   | 2,374,132                     |
| Greenoaks                    | 317,037       | -           | 70          | -   | -                                   | 317,107                       |
| Oxford Lake                  | 177,497       | -           | 250,221     | (76,495)  | -                                   | 351,223                       |
| Mud Lake                     | 424,318       | (20,000)    | 500         | -   | -                                   | 404,818                       |
| Vassal                       | 193,327       | 2,544       | -           | -   | -                                   | 195,871                       |
| Expansion Lake               | 171,855       | -           | -           | -   | -                                   | 171,855                       |
| Miner Lake                   | 482,498       | 3,684       | 422,786     | -   | -                                   | 908,968                       |
| Dolsan                       | 8,434         | -           | 587         | -   | -                                   | 9,021                         |
| Chilko                       | 118,980       | 20,000      | 105         | (5,000)   | -                                   | 134,085                       |
| Other exploration            | 81,713        | -           | 23,729      | -   | (14,850)                            | 90,592                        |
| Total resource<br>properties | 6,550,643     | 6,228       | 1,511,423   | (369,789)                                       | (14,850)                            | 7,683,655                     |

|                              | June 30, 2010 | Acquisition | Deferred    | Tax Credits,<br>Option Payments,<br>JV Recovery | Recovered<br>Excess/<br>Write-Downs | June 30, 2011<br>Total |
|------------------------------|---------------|-------------|-------------|---|-------------------------------------|------------------------|
|                              | Total         | Cost        | Exploration |   |                                     | Total                  |
|                              | \$            | \$          | \$          | \$  | \$                                  | \$                     |
| Alcudia                      | 44,332        | -           | 250,451     | (102,270)                                       | -                                   | 192,513                |
| Coldstream                   | 703,597       | -           | 657,732     | -   | -                                   | 1,361,329              |
| Cote-Archie Lake             | 194,757       | -           | -           | (25,000)  | -                                   | 169,757                |
| Three Towers                 | 396,054       | -           | 7,575       | -   | -                                   | 403,629                |
| Destiny                      | 2,480,256     | -           | 390,316     | (422,816)                                       | -                                   | 2,447,756              |
| Greenoaks                    | 314,756       | -           | 2,281       | -   | -                                   | 317,037                |
| Oxford Lake                  | -             | -           | 177,497     | -   | -                                   | 177,497                |
| Mud Lake                     | 390,806       | 20,000      | 13,512      | -   | -                                   | 424,318                |
| Vassal                       | 189,474       | -           | 6,297       | (2,444)   | -                                   | 193,327                |
| Expansion Lake               | 171,334       | -           | 521         | -   | -                                   | 171,855                |
| Miner Lake                   | 145,521       | 6,465       | 330,512     | -   | -                                   | 482,498                |
| Dolsan                       | -             | -           | 9,707       | (1,273)   | -                                   | 8,434                  |
| Chilko                       | -             | 7,500       | 111,480     | -   | -                                   | 118,980                |
| Other exploration            | 65,765        | 26          | 21,473      | (1,970)   | (3,581)                             | 81,713                 |
| Total resource<br>properties | 5,096,652     | 33,991      | 1,979,354   | (555,773)                                       | (3,581)                             | 6,550,643              |

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 11. Exploration and Evaluation Assets – continued

#### a) Destiny (formerly Despinassy) Property, Quebec

The Destiny Project is located in Despinassy Township, northeast of Val d'Or, Quebec and lies within the Archean age Abitibi greenstone belt in the eastern Superior Province in Quebec. The property is 100% owned by Alto subject to certain underlying production royalties.

On July 2, 2009, the Company entered into an option agreement with Pacific North West Capital Corp (“PFN”). Under the terms of the Agreement, PFN is to pay the Company \$200,000 in cash, issue 250,000 of its shares to the Company and complete a total of \$3,500,000 in exploration expenditures over a four year period to earn a 60% interest in the Destiny property.

On August 8, 2011, PFN announced that it has assigned its interest in the Option Agreement to Next Gen Metals Inc. Next Gen can now earn 60% interest in the project by assuming PFN’s obligations under the original Option Agreement with Alto.

Details are as follows:

|                             |                                     |  |   |
|-----------------------------|-------------------------------------|--|---|
| Upon execution of agreement | Cash payment of \$25,000 (received) | Issuance of 25,000 common shares of PFN (received) |   |
| On or before August 6, 2010 | Cash payment of \$25,000 (received) | Issuance of 50,000 common shares of PFN (received) | Minimum exploration expenditures of \$300,000 (completed) |
| On or before August 6, 2011 | Cash payment of \$50,000 (received) | Issuance of 75,000 common shares of PFN (received) | Minimum exploration expenditures of \$300,000 (completed) |
| On or before August 6, 2012 | Cash payment of \$50,000            | Issuance of 100,000 common shares of PFN           | Minimum exploration of \$400,000                          |
| On or before August 6, 2013 | Cash payment of \$50,000            |  | Minimum exploration expenditures of \$400,000             |

#### b) Coldstream Property, Ontario

The Coldstream property is located in the Shebandowan greenstone belt west of Thunder Bay, Ontario. On January 18, 2011 The Company announced that Foundation Resources Inc. (“Foundation”) has earned 60% interest in the Coldstream property and that future work will be completed and funded 40% by Alto and 60% by Foundation.

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 11. Exploration and Evaluation Assets – continued

#### b) Coldstream Property, Ontario - continued

On July 20, 2009, the Company acquired a new gold property near its Coldstream project in north western Ontario. Under the terms of the Option to Purchase Agreement, the Company has the option to acquire a 100% interest in the property by making the following cash payments and share issuances:

|                             |                                 |   |
|-----------------------------|---------------------------------|---|
| Upon execution of agreement | Cash payment of \$5,000 (paid)  | Issuance of 50,000 common shares (issued) |
| On or before July 20, 2010  | Cash payment of \$10,000 (paid) | Issuance of 50,000 common shares (issued) |
| On or before July 20, 2011  | Cash payment of \$15,000        | Issuance of 50,000 common shares          |
| On or before July, 2012     | Cash payment of \$20,000        | Issuance of 50,000 common shares          |

The Vendor will retain a 2% Net Smelter Return royalty and Alto has the option to buy back one half (1%) of the royalty for \$1 million. (See Note 17 – subsequent events)

#### c) Cote-Archie Lake Property, Ontario

On September 1, 2011, Prodigy Gold Inc. terminated the Option Agreement to earn a 51% interest in the project. The property is now 100% owned by the Company.

#### d) Chilko, British Columbia

On August 24, 2011, the Company announced that it has entered into an Assignment Agreement with AVC Ventures Capital Corp. (“AVC”) whereby the Company has agreed to assign to AVC all of its rights under an existing option agreement to acquire a 100% interest in the Chilko property within the Chilcotin Plateau area of British Columbia. Under the terms of the Assignment Agreement, AVC is to pay the Company \$5,000 on execution (paid subsequently) and a further \$25,000 on closing, subject to certain adjustments.

AVC is also required to issue the Company 200,000 shares on closing and a further 100,000 shares on exercise of the option under the Option Agreement or upon AVC electing not to proceed to exercise the Option. AVC has also agreed to grant the Company a 1% net smelter returns royalty, subject to the right of AVC to repurchase one half of such royalty for \$500,000. In order to exercise the Option, AVC is required to incur work expenditures on the Chilko Property totaling approximately \$380,000 over a period expiring April 30, 2014. AVC would also be required over the next 18 months to make cash payments to the original vendors under the Option Agreement of \$70,000 and to issue such number of shares of AVC as would have a value equal to that of 350,000 of the Company’s shares, based on each company’s trading price at the time of issuance. Under the terms of the Option Agreement the original vendors retain a 2% net smelter returns royalty and AVC has the Option to purchase one half of such royalty for \$1,000,000.

The agreement remains subject to the approval of the TSX-V.

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

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### 12. Share Capital

*Authorized share capital:* Unlimited Common shares without par value

*Shares issued:*

- a) On December 15, 2010 the Company received gross proceeds of \$1,075,000 by issuing 21,500,000 flow through units at a price of \$0.05 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable at a price of \$0.10 per share for a period of twelve months expiring December 15, 2011. The Company allocated \$898,702 to the common shares and \$176,298 to the share purchase warrants based upon the relative fair values.

The Company paid finder's fees to Norstar Securities of \$70,000 and issued 1,400,000 warrants each exercisable to purchase one common share at a price of \$0.10 for a period of one year expiring December 15, 2011. The Company recorded \$13,732 to share issuance costs to the finders warrants based upon the relative fair values.

- b) On December 21, 2010 the Company received gross proceeds of \$208,500 by issuing a combination of 400,000 flow-through units at a price of \$0.05 per unit and 3,770,000 units at a price of \$0.05 per unit. Each flow through unit consists of one common share and one-half of one share purchase warrant. Each unit consists of one common share and one share purchase warrant. Each whole warrant is exercisable at a price of \$0.10 per share for a period of twelve months expiring December 21, 2011. The Company allocated \$174,306 to the common shares and \$34,194 to the share purchase warrants based upon the relative fair values. The Company paid finder's fees to Union Securities of \$16,680 and issued 333,600 warrants, each exercisable to purchase one common share at a price of \$0.10 for a period of one year expiring December 21, 2011. The Company recorded \$3,272 to share issuance costs to the finders warrants based upon the relative fair values.
- c) On December 29, 2010 the Company received gross proceeds of \$331,000 by issuing a combination of 5,300,000 flow-through units at a price of \$0.05 per unit and 1,320,000 units at a price of \$0.05 per unit. Each flow through unit consists of one common share and one-half of one share purchase warrant. Each unit consists of one common share and two common share purchase warrants. Each whole warrant is exercisable at a price of \$0.10 per share for a period of twelve months expiring December 29, 2011. The Company allocated \$279,058 to the common shares and \$51,942 to the share purchase warrants based upon the relative fair values.
- d) On December 15, 2011, the Company consolidated the common shares on a 10 for 1 basis.
- e) On December 16, 2011 the Company announced a non-brokered private placement of up to \$2,000,000 through the issuance of a combination of units ("units") and flow through shares ("FT shares") at a post consolidation price of \$0.15 per unit and \$0.18 per FT share. Each unit consists of one post-consolidation common share and one-half of one post-consolidation share purchase warrant ("warrant"), each whole warrant being exercisable to purchase one common share at a price of \$0.25 for a period of two years from closing. Finders' fees will be payable in connection with the private placement in accordance with the policies of the TSX Venture Exchange. As at December 31, 2011, the Company had closed two tranches of financing by issuing 3,525,000 FT shares for total proceeds of \$634,500. The third tranche remains outstanding and is expected to close in the following quarter. The Company paid finders fees of \$37,359 cash and issued 207,500 broker warrants exercisable at a price of \$0.15 for a period of two years in connection with the private placement. All securities are subject to a four month hold period. The Company recorded \$28,804 to share issuance costs to the finders warrants based upon the relative fair values.

## Alto Ventures Ltd.

(An Exploration Stage Company)

### Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

#### 12. Share Capital - continued

##### Warrants:

Warrants have been issued and are exercisable to purchase common shares of the Company as follows:

|                                    | Number of warrants |           | Weighted<br>Average<br>Exercise Price |
|------------------------------------|--------------------|-----------|---------------------------------------|
| Balance – June 30, 2009            | -                  |           | -                                     |
| Issued                             | 313,000            |           | 1.00                                  |
| Agent warrants issued              | 140,816            |           | 1.00                                  |
| Balance – June 30, 2010            | 453,816            | \$        | 1.00                                  |
| Issued                             | 5,975,920          |           | 1.00                                  |
| Expired                            | (108,500)          |           | 1.00                                  |
| Balance – June 30, 2011            | 6,321,236          | \$        | 1.00                                  |
| Expired                            | (2,431,836)        |           | 1.00                                  |
| Issued                             | 207,500            |           | 0.15                                  |
| <b>Balance – December 31, 2011</b> | <b>4,096,900</b>   | <b>\$</b> | <b>0.96</b>                           |

Of the warrants outstanding at December 31, 2011, the following are stock warrants:

- a) 3,647,000 warrants are exercisable at \$1.00 per share up to January 17, 2012\*

Of the warrants outstanding at December 31, 2011 following are agent warrants:

- a) 242,400 warrants are exercisable at \$1.00 per share up to January 17, 2012\*  
b) 207,500 warrants are exercisable at \$1.50 per share up to December 22, 2013

\* These warrants expired subsequent to the December 31, 2011 period end.

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 12. Share Capital - continued

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants. The estimated fair value of the warrants granted and issued during the year was determined using a Black-Scholes option-pricing model with the following assumptions:

|                                 | 2011   |
|---------------------------------|--------|
| Expected dividend yield         | 0%     |
| Expected stock price volatility | 1.82%  |
| Risk free rate                  | 0.92%  |
| Expected life of warrants       | 2 year |

#### Stock Options

The Company has established a share purchase option plan whereby the Board of Directors, may from time to time, grant options to directors, officers, employees or consultants to a maximum of 10% of the issued and outstanding share capital amount. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's Board of Directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant date. The options vest immediately except for investor relations employees which vest quarterly over a one year period.

Stock option transactions were as follows:

|                                    | Number of options | Weighted<br>Average<br>Exercise Price |
|------------------------------------|-------------------|---------------------------------------|
| Balance – June 30, 2010            | 360,500           | \$ 1.40                               |
| Granted                            | 360,000           | 1.00                                  |
| Forfeited                          | (94,500)          | 1.40                                  |
| Balance – June 30, 2011            | 626,000           | \$ 1.20                               |
| Expired                            | (45,000)          | 1.00                                  |
| Forfeited                          | (2,000)           | 1.00                                  |
| <b>Balance – December 31, 2011</b> | <b>579,000</b>    | <b>\$ 1.18</b>                        |

## Alto Ventures Ltd.

(An Exploration Stage Company)

### Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

#### 12. Share Capital - continued

##### Stock Options - continued

The following is a summary of the Company's options outstanding as at December 31, 2011:

| Number         | Price per share | Expiry date       | Options exercisable |
|----------------|-----------------|-------------------|---------------------|
| 5,000          | \$1.00          | May 16, 2012      | 5,000               |
| 103,500        | \$2.00          | December 16, 2012 | 103,500             |
| 112,500        | \$1.00          | December 18, 2012 | 112,500             |
| 10,000         | \$1.00          | November 15, 2015 | 10,000              |
| 323,000        | \$1.00          | January 17, 2016  | 323,000             |
| 25,000         | \$1.00          | May 31, 2016      | 12,500              |
| <b>579,000</b> |                 |                   | <b>566,500</b>      |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options. The estimated fair value of the stock options granted during the year was determined using a Black-Scholes option pricing model with the following assumptions:

|                                 | 2011    |
|---------------------------------|---------|
| Expected dividend yield         | 0%      |
| Expected stock price volatility | 103%    |
| Risk free rate                  | 3.01%   |
| Expected life of warrants       | 5 years |

#### 13. Related Party Transactions

- At December 31, 2011, the Company owed \$31,535 (June 30, 2010: \$13,762) to companies with directors and officers in common. There are no repayment terms or interest associated with this balance.
- At December 31, 2011, White Label Corporate Services Inc., a management services company with officers in common, owed the Company \$38,000. (June 30, 2010 - \$Nil) relating to a deposit for services paid to the related company.

## Alto Ventures Ltd.

(An Exploration Stage Company)

### Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

#### 13. Related Party Transactions - *continued*

- c) The following related party transactions were in the normal course of operations and are measured at fair value being their exchange amounts:

|   | December 31, 2011 | December 31, 2010 |
|---|-------------------|-------------------|
|   | \$                | \$                |
| HRG Management Ltd. – administrative services-<br>property and equipment<br>(Company with Director and Officer in Common) | -                 | 58,945            |
| White Label Corporate Services Inc. – administrative<br>services (officers in common)                                     | <b>100,500</b>    | 38,000            |
| Mike Koziol –salary services (Officer and Company<br>with Director in Common)   | <b>78,000</b>     | 78,000            |
| Hamilton Capital Partners Limited- management fees<br>(Company with a Former Director in Common)                          | -                 | 9,000             |
| Mirador Management – management fees (Company<br>with an Officer in Common)   | <b>21,000</b>     | -                 |
| McMillan LLP – legal fees (formerly Lang Michener)<br>(Legal firm with a Partner and Company Director in<br>Common)       | <b>14,515</b>     | 5,087             |
| Gary Zak – consulting services (Officer and Director<br>in Common)  | <b>16,800</b>     | 7,415             |
| <b>Total</b>  | <b>230,815</b>    | 196,447           |

#### *Compensation of key management personnel*

|   | 2011 |                | 2010 |         |
|---|------|----------------|------|---------|
| Management fees, directors and audit committee fees | \$   | <b>133,800</b> | \$   | 120,415 |
|   | \$   | <b>133,800</b> | \$   | 120,415 |

#### 14. Segmented information

##### *(a) Operating Segment*

The Company's operations are primarily directed towards the acquisition, exploration and future development of resource properties in Canada

##### *(b) Geographic information*

All interest income is earned in Canada and all assets are held in Canada.



# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 15. Supplementary Disclosure of Cash Flow Information

| Supplemental Disclosure of Non-Cash Financing and Investing Activities include: | December 31, 2011 | December 31, 2010 |
|---|-------------------|-------------------|
| Shares issued in exchange under mineral property agreements                     | \$ -              | \$ 2,500          |
| Shares received under mineral property agreement                                | \$ 23,625         | \$ 7,500          |
| Accounts payable included in mineral properties                                 | \$ 19,784         | \$ 251,423        |

### 16. Commitments

The Company entered into a services agreement with White Label Corporate Services Inc. ("WLM") on November 1, 2010 and has agreed to pay a monthly corporate administration fee of \$16,750 that includes office rent, administration, accounting, corporate secretarial, chief financial officer, executive assistant, IT computer maintenance and other related services. The agreement can be terminated by either party prior to expiration with 60 days written notice. The Company shares two officers in common with WLM.

### 17. Subsequent Events

Subsequent to the December 31, 2011:

- a) On February 16, 2012, the Company announced the completion of the sale of its 40% interest in the Coldstream Gold Project to Foundation Resources Inc. ("Foundation") previously announced on November 8, 2011. This consolidation in ownership gives Foundation a 100% interest in the property.

In consideration of the acquisition of the Company's 40% interest, Foundation has paid the Company \$350,000 in cash and issued 10,000,000 common shares of Foundation at a deemed price of \$0.12 per share. Within six months, Foundation will pay to the Company a further \$950,000 in cash, subject to a potential three month extension period, for a total consideration of \$2,500,000 in cash and shares. As part of the agreement the Company will vote in support of management for a period of three years and will not tender its shares to any take-over bid not recommended by Foundation's Board of Directors.

- b) The Company had 38,894,000 warrants expire un-exercised.

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

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### 18. First Time Adoption of IFRS

The accounting policies in Note 3 have been applied in preparing the condensed interim financial statements for the six-month period ended December 31, 2011 and 2010, and the condensed financial statements for the year ended June 30, 2010. In preparing these IFRS financial statements for the period ended December 31, 2011, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS.

The Company elected to take the following IFRS 1 optional exemptions:

#### *Share-based payment transactions*

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS. The Company has elected not to apply IFRS 2 to awards that vested prior to July 1, 2010.

#### *Business Combinations*

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied IFRS 3 to business combinations that occurred on or after July 1, 2010.

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 18. First Time Adoption of IFRS – continued

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated July 1, 2010:

The reconciliation between the Canadian generally accepted accounting principles (“GAAP”) and IFRS consolidated statement of financial position as at July 1, 2010 (date of transition to IFRS) is provided below:

|  | July 1, 2010 |                  |                              |                  |
|--|--------------|------------------|------------------------------|------------------|
|  | Note         | GAAP             | Effect of transition to IFRS | IFRS             |
| <b>Assets</b>                              |              |                  |                              |                  |
| <b>Current</b>                             |              |                  |                              |                  |
| Cash                                       |              | 1,052,369        | -                            | 1,052,369        |
| Receivables                                |              | 74,834           | -                            | 74,834           |
| Marketable Securities                      |              | 369,098          | -                            | 369,098          |
| Due from joint venture option partner      |              | 194,217          | -                            | 194,217          |
| Quebec exploration tax credit              |              | 61,037           | -                            | 61,037           |
| Prepays and Deposits                       |              | 57,634           | -                            | 57,634           |
|  |              | <u>1,809,189</u> | -                            | <u>1,809,189</u> |
| Mineral Properties                         |              | 5,096,652        | -                            | 5,096,652        |
| Equipment                                  |              | 2,356            | -                            | 2,356            |
|  |              | <u>6,908,197</u> | -                            | <u>6,908,197</u> |
| <b>Liabilities</b>                         |              |                  |                              |                  |
| <b>Current</b>                             |              |                  |                              |                  |
| Accounts payable and accrued liabilities   |              | 103,869          | -                            | 103,869          |
| Due to related parties                     |              | 13,762           | -                            | 13,762           |
|  |              | <u>117,631</u>   | -                            | <u>117,631</u>   |
| <b>Shareholders' equity</b>                |              |                  |                              |                  |
| Share capital                              |              | 15,949,673       | -                            | 15,949,673       |
| Contributed Surplus                        |              | 1,999,501        | -                            | 1,999,501        |
| Other comprehensive income                 |              | 140,080          | -                            | 140,080          |
| Deficit                                    |              | (11,298,688)     | -                            | (11,298,688)     |
|  |              | <u>6,790,566</u> | -                            | <u>6,790,566</u> |
| Total shareholders' equity and liabilities |              | <u>6,908,197</u> | -                            | <u>6,908,197</u> |

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 18. First Time Adoption of IFRS – continued

The reconciliation between the Canadian generally GAAP and IFRS statement of financial position as at December 31, 2010 is provided below:

|  | December 31, 2010 |                  |                              |                  |
|--|-------------------|------------------|------------------------------|------------------|
|  | Note              | GAAP             | Effect of transition to IFRS | IFRS             |
| <b>Assets</b>                              |                   |                  |                              |                  |
| <b>Current</b>                             |                   |                  |                              |                  |
| Cash                                       |                   | 745,518          | -                            | 745,518          |
| Restricted cash                            |                   | 1,360,000        | -                            | 1,360,000        |
| Receivables                                |                   | 63,466           | -                            | 63,466           |
| Marketable securities                      |                   | 659,070          | -                            | 659,070          |
| Due from joint venture option partner      |                   | 49,752           | -                            | 49,752           |
| Quebec exploration tax credit              |                   | 61,037           | -                            | 61,037           |
| Prepays and deposits                       |                   | 84,632           | -                            | 84,632           |
|  |                   | <u>3,023,475</u> | -                            | <u>3,023,475</u> |
| Mineral properties                         |                   | 5,413,174        | -                            | 5,413,174        |
| Equipment                                  |                   | 1,649            | -                            | 1,649            |
|  |                   | <u>8,438,298</u> | -                            | <u>8,438,298</u> |
| <b>Liabilities</b>                         |                   |                  |                              |                  |
| <b>Current</b>                             |                   |                  |                              |                  |
| Accounts payable and accrued liabilities   |                   | 280,512          | -                            | 280,512          |
| Exploration advances payable               |                   | 26,421           | -                            | 26,421           |
|  |                   | <u>306,933</u>   | -                            | <u>306,933</u>   |
| Commitment to issue shares                 |                   | 8,000            | -                            | 8,000            |
| <b>Shareholders' equity</b>                |                   |                  |                              |                  |
| Share capital                              |                   | 17,163,864       | -                            | 17,163,864       |
| Contributed surplus                        |                   | 2,283,050        | -                            | 2,283,050        |
| Other comprehensive income                 |                   | 197,552          | -                            | 197,552          |
| Deficit                                    |                   | (11,521,101)     | -                            | (11,521,101)     |
|  |                   | <u>8,123,365</u> | -                            | <u>8,123,365</u> |
| Total shareholders' equity and liabilities |                   | <u>8,438,298</u> | -                            | <u>8,438,298</u> |

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 18. First Time Adoption of IFRS – continued

The reconciliation between the Canadian generally GAAP and IFRS consolidated statement of financial position as at June 30, 2011 is provided below:

|  | June 30, 2011 |                  |                              |                  |
|--|---------------|------------------|------------------------------|------------------|
|  | Note          | GAAP             | Effect of transition to IFRS | IFRS             |
| <b>Assets</b>                              |               |                  |                              |                  |
| <b>Current</b>                             |               |                  |                              |                  |
| Cash                                       |               | 302,226          | -                            | 302,226          |
| Short-term investments                     |               | 2,000,000        | -                            | 2,000,000        |
| Receivables                                |               | 218,830          | -                            | 218,830          |
| Marketable Securities                      |               | 401,806          | -                            | 401,806          |
| Due from joint venture option partner      |               | 9,339            | -                            | 9,339            |
| Quebec exploration tax credit              |               | 168,994          | -                            | 168,994          |
| Prepays and Deposits                       |               | 108,601          | -                            | 108,601          |
|  |               | <u>3,209,796</u> | -                            | <u>3,209,796</u> |
| Mineral Properties                         |               | 6,550,643        | -                            | 6,550,643        |
| Equipment                                  |               | 1,649            | -                            | 1,649            |
|  |               | <u>9,762,088</u> |                              | <u>9,762,088</u> |
| <b>Liabilities</b>                         |               |                  |                              |                  |
| <b>Current</b>                             |               |                  |                              |                  |
| Accounts payable and accrued liabilities   |               | 336,328          | -                            | 336,328          |
| Due to related parties                     |               | 11,219           | -                            | 11,219           |
| Exploration advances payable               |               | 168,302          | -                            | 168,302          |
|  |               | <u>515,849</u>   | -                            | <u>515,849</u>   |
| <b>Shareholders' equity</b>                |               |                  |                              |                  |
| Share capital (a)                          |               | 17,742,810       | 335,160                      | 18,077,970       |
| Contributed Surplus                        |               | 3,347,981        | -                            | 3,347,981        |
| Other comprehensive income                 |               | 27,428           | -                            | 27,428           |
| Deficit (a)                                |               | (11,871,980)     | (335,160)                    | (12,207,140)     |
|  |               | <u>9,246,239</u> | -                            | <u>9,246,239</u> |
| Total shareholders' equity and liabilities |               | <u>9,762,088</u> | -                            | <u>9,762,088</u> |

- a) Canadian GAAP – Flow-through shares were recorded at their face value, net of related issuance costs. On the date the tax credits were renounced, a future tax liability was recognized as a cost of issuing the shares.

IFRS – Flow-through shares are recognized based on the quoted price of the existing shares on the date of the issue. The difference, if any, between the amounts recognized in common shares and the amount the investor pays for the shares is recognized as a premium which is reversed into earnings as eligible expenditures are incurred. The deferred tax impact is recorded as eligible expenditures are incurred, provided the Company has the intention to renounce the related tax benefits.

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 18. First Time Adoption of IFRS – continued

The reconciliation between GAAP and IFRS total comprehensive income for the six-months ended December 31, 2010 is provided below.

|   | Six-Months ended<br>December 31, 2010 |                                    |                |
|---|---------------------------------------|------------------------------------|----------------|
| Note  | GAAP                                  | Effect of<br>transition to<br>IFRS | IFRS           |
| <b>Expenses</b>                                 |                                       |                                    |                |
| Amortization                                    | 707                                   | -                                  | 707            |
| Bad debt recovery                               | (65,000)                              | -                                  | (65,000)       |
| Consulting fees                                 | 15,027                                | -                                  | 15,027         |
| Corporate administrative services               | 15,147                                | -                                  | 15,147         |
| Directors fees                                  | 26,000                                | -                                  | 26,000         |
| Investor and shareholder relations              | 33,354                                | -                                  | 33,354         |
| Mineral property write-downs                    | 1,346                                 | -                                  | 1,346          |
| Office and miscellaneous                        | 82,342                                | -                                  | 82,342         |
| Professional fees                               | 94,815                                | -                                  | 94,815         |
| Salaries and wages                              | 38,291                                | -                                  | 38,291         |
| Transfer agent and filing fees                  | 5,787                                 | -                                  | 5,787          |
| Travel and promotion                            | 8,747                                 | -                                  | 8,747          |
|   | <u>256,563</u>                        | -                                  | <u>256,563</u> |
| <b>Other Item</b>                               |                                       |                                    |                |
| Interest income                                 | (3,418)                               | -                                  | (3,418)        |
| Management fee recoveries                       | (30,732)                              | -                                  | (30,732)       |
| <b>Loss and comprehensive loss for the year</b> | <u>222,413</u>                        | -                                  | <u>222,413</u> |

# Alto Ventures Ltd.

(An Exploration Stage Company)

## Notes to the Condensed Interim Financial Statements

For the Six-Month Period Ended December 31, 2011

(Canadian Funds)

(Unaudited)

### 18. First Time Adoption of IFRS – continued

The reconciliation between GAAP and IFRS total comprehensive income for the year ended June 30, 2011 is provided below.

|   | Year Ended<br>June 30, 2011 |                                    |          |
|---|-----------------------------|------------------------------------|----------|
| Note  | GAAP                        | Effect of<br>transition to<br>IFRS | IFRS     |
| <b>Expenses</b>                                 |                             |                                    |          |
| Administrative services                         | 204,696                     | -                                  | 204,696  |
| Amortization                                    | 707                         | -                                  | 707      |
| Bad debt expense (recovery)                     | (90,000)                    | -                                  | (90,000) |
| Consulting fees                                 | 40,567                      | -                                  | 40,567   |
| Directors fees                                  | 44,000                      | -                                  | 44,000   |
| Investor and shareholder relations              | 105,604                     | -                                  | 105,604  |
| Mineral property write-downs                    | 3,582                       | -                                  | 3,582    |
| Professional fees                               | 207,665                     | -                                  | 207,665  |
| Salaries and wages                              | 62,792                      | -                                  | 62,792   |
| Stock-based compensation                        | 236,117                     | -                                  | 236,117  |
| Transfer agent and filing fees                  | 30,567                      | -                                  | 30,567   |
| Travel and promotion                            | 28,534                      | -                                  | 28,534   |
|   | 874,831                     | -                                  | 874,831  |
| <b>Other Item</b>                               |                             |                                    |          |
| Interest income                                 | (14,486)                    | -                                  | (14,486) |
| Impairment loss on marketable securities        | 87,140                      | -                                  | 87,140   |
| Management fee recoveries                       | (39,033)                    | -                                  | (39,033) |
| <b>Loss before income taxes</b>                 | 908,452                     | -                                  | 908,452  |
| Future income tax recovery (a)                  | (335,160)                   | 335,160                            | -        |
| <b>Loss and comprehensive loss for the year</b> | 573,292                     | 335,160                            | 908,452  |

- a) Canadian GAAP – Flow-through shares were recorded at their face value, net of related issuance costs. On the date the tax credits were renounced, a future tax liability was recognized as a cost of issuing the shares.

IFRS – Flow-through shares are recognized based on the quoted price of the existing shares on the date of the issue. The difference, if any, between the amounts recognized in common shares and the amount the investor pays for the shares is recognized as a premium which is reversed into earnings as eligible expenditures are incurred. The deferred tax impact is recorded as eligible expenditures are incurred, provided the Company has the intention to renounce the related tax benefits.

There are no significant differences between IFRS and Canadian GAAP in connection with the Company's statements of cash flows for the period ended December 31, 2010 or the year ended June 30, 2010.



**MANAGEMENT DISCUSSION AND  
ANALYSIS**

**For the Six-month Period Ended  
December 31, 2011**

**As at February 22, 2012**



**Alto Ventures Ltd.**  
**Management Discussion and Analysis**  
**For the six-month period ended December 31, 2011 and 2010**

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**INTRODUCTION**

The following interim management's discussion and analysis (MD&A) of the Company has been prepared as of February 22, 2012. This MD&A should be read in conjunction with the unaudited condensed interim financial statements of Alto Ventures Ltd. and the notes thereto for the six-month period ended December 31, 2011, which have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including the financial statements and Management Discussion and Analysis ("MD&A"), is complete and reliable.

**DESCRIPTION OF BUSINESS**

The Company was incorporated under the provisions of the British Columbia Business Corporations Act on June 6, 1987. The Company is listed on the TSX Venture Exchange (the "Exchange") as a Tier 2 mining issuer under the trading symbol - ATV. The Company is in the business of acquiring and exploring gold projects.

The recoverability of values assigned to these gold properties is dependent upon the discovery of economically recoverable reserves, the ability to obtain necessary financing to complete development, and future profitable production or proceeds from disposition.

The Company has investigated ownership of its mineral interests as at December 31, 2011 and, to the best of its knowledge, ownership of its interests are in good standing.

**HIGHLIGHTS FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2011**

- a) On December 15, 2011, the Company consolidated the common shares on a 10 for 1 basis.
- b) On December 16, 2011 the Company announced a non-brokered private placement of up to \$2,000,000 through the issuance of a combination of units ("units") and flow through shares ("FT shares") at a post consolidation price of \$0.15 per unit and \$0.18 per FT share. Each unit consists of one post-consolidation common share and one-half of one post-consolidation share purchase warrant ("warrant"), each whole warrant being exercisable to purchase one common share at a price of \$0.25 for a period of two years from closing. Finders' fees will be payable in connection with the private placement in accordance with the policies of the TSX Venture Exchange. As at December 31, 2011, the Company had closed two tranches of financing by issuing 3,525,000 FT shares for total proceeds of \$634,500. The third tranche remains outstanding and is expected to close in the following quarter.

The Company paid finders fees of \$37,359 cash and issued 207,500 broker warrants exercisable at a price of \$0.15 for a period of two years in connection with the private placement. All securities are subject to a four month hold period.

**Alto Ventures Ltd.**  
**Management Discussion and Analysis**  
**For the six-month period ended December 31, 2011 and 2010**

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**EXPLORATION HIGHLIGHTS FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2011**

**Destiny Project, Quebec**

The Destiny project is host to a Mineral Resource calculated consistent with guidelines set out in National Instrument 43-101. The Resource Estimate was prepared by Wardrop, A Tetra Tech Company (Wardrop) of Sudbury, Ontario and filed on SEDAR on March 7, 2011. At the 0.5 g/t gold cut-off grade, Wardrop estimates that the Indicated Mineral Resources of the DAC Deposit total approximately 10.8 million tonnes at an average grade of 1.05 g/t gold. In addition, at the same gold cut-off grade, Wardrop estimates that the Inferred Mineral Resources total approximately 8.3 million tonnes at an average grade of 0.92 g/t gold. The estimated contained ounces in the Indicated category are 364,000 plus 247,000 ounces in the Inferred classification.

On November 22, 2011 the Company started a 3,500 m drilling program. The objectives of the program are to increase the estimated contained ounces on the Destiny property by drilling the area between the DAC Deposit and the Darla Zone located one kilometre east of the DAC. Completion of the program is anticipated in March, 2012.

On August 8, 2011, PFN announced that it has assigned its interest in the Option Agreement with the Company to Next Gen Metals Inc. Next Gen can now earn a 60% interest in the Destiny project by assuming PFN's obligations under the original Option Agreement with Alto.

**Coldstream Project, Ontario**

During the six-month period ended December 31, 2011 the Company released a draft of an NI43-101 Technical Report including a Mineral Resource Estimate for the East Coldstream Gold Deposit prepared by Wardrop. At a cut-off grade of 0.4 g/t gold and using the Inverse Distance Squared (ID2) estimation method, the two parallel gold horizons contain an Indicated Resource of about 3.5 million tonnes with an average grade of 0.85 g/t gold. In addition, the Inferred Resource totals approximately 30.5 million tonnes with an average grade of 0.78 g/t gold. At the 0.4 g/t cut-off the Deposit is estimated to contain 763,276 ounces of gold in the Inferred category and 96,400 ounces of gold in the Indicated category (see news release dated September 20, 2011).

On November 9, 2011, the Company announced the sale of its remaining 40% interest in the Coldstream Property to its partner Foundation Resources (Foundation). In consideration of the acquisition of Alto's 40% interest, Foundation will pay aggregate consideration of \$2,500,000 payable through the issuance of 10,000,000 common shares at a price of \$0.12 per share and \$1,300,000 in cash over a six month period. On the Closing Date, Foundation will pay to Alto \$350,000 in cash and issue Alto such number of common shares, up to 10 million shares, as will not result in Alto becoming a control person of Foundation. Within six months of the closing date, Foundation will pay to Alto \$950,000 in cash, subject to a potential three month extension period, and issue the balance of any common shares due to Alto. As part of the agreement Alto will vote in support of management for a period of three years and will not tender its shares to any take-over bid not recommended by Foundation's Board of Directors. The transaction is pending approval from securities regulators.

**Miner Lake, Ontario**

During this reporting period, the Company completed nine diamond drill holes, totalling 1,732 m. Eight of the nine holes intersected significant gold anomalies including drill hole MIN11-06 intersecting 39.2 m at an average grade of 0.6 g/t gold. The results of the drilling are very positive identifying widespread gold on the property. The persistent and widespread distribution of gold in the numerous hydrothermal breccia zones is very encouraging because of the many similarities in style of mineralization to the Cote Lake deposit operated by Trelawney Mining and Exploration Inc. The Cote Lake zone is located approximately 150 km north of Sudbury and is reported to contain 131 million tonnes averaging 1.0 g/t gold containing 4.2 million ounces.

These early stage exploration results have confirmed the presence of a large gold-mineralizing system on the property. Additional work is being planned for the summer of 2012.

**Alto Ventures Ltd.**  
**Management Discussion and Analysis**  
**For the six-month period ended December 31, 2011 and 2010**

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**EXPLORATION HIGHLIGHTS FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2011 –**  
*continued*

The Company started surface exploration work in May 2011 and continued through to July 2011. The work consisted of mapping, overburden stripping, washing and sampling. Mapping and prospecting have outlined a brittle/ductile deformation zone within variably altered feldspar porphyries intruding intermediate to felsic volcanic rocks. Numerous iron sulphide (pyrite and pyrrhotite) occurrences lie within shear zones in this corridor and many contain gold, which is associated mainly with chalcopyrite, a copper sulphide mineral. In addition to the gold in shear zones, gold also occurs in chlorite altered breccia zones within the feldspar porphyry.

**Oxford Lake, Manitoba**

On November 16, 2011 the Company announced plans for 5,000 m of drilling to be carried out starting in late January 2012. Grid preparation and ground geophysics has started in January, 2012.

The Company increased the size of the Oxford Lake property to over 30,000 ha through the acquisition of two Mineral Exploration Licences. In June 2011 helicopter supported VTEM electromagnetic and magnetometer surveys were contracted and approximately 1,700 line km of surveying was completed in August 2011. The survey work has delineated numerous targets favourable for gold deposits associated with banded iron formations as well as targets that exhibit high potential for massive sulphide copper, zinc, gold and silver deposits.

Gold mineralization in the northern half of the Oxford Lake property is associated with a banded iron formation ("BIF"). Alto's geophysical surveys delineated the main gold target on the property, a trend of aeromagnetic "High" anomalies 30 km long. The historical Rusty Gold Zone (Historical Resource\* of 800,000 tonnes averaging 6 g/t gold, see the Description of the Rusty Gold Zone Deposit below) is one of several significant gold occurrences associated with this magnetic trend. Other occurrences along the trend include the East Rusty Zone and the Blue Jay area. Historical drill intercepts at the East Rusty Zone include 4.6 g/t gold over 3.7 m. The Blue Jay area is located two kilometres east of the Rusty Gold Zone and historical drilling at Blue Jay intersected up to 10 g/t gold over 2.0 m. Gold in both the East Rusty Zone and Blue Jay area is associated with the BIF delineated by Alto's aeromagnetic survey.

Mineralization at the Rusty Gold Zone, East Rusty Zone and Blue Jay area remains open along strike and to depth. The target model for this style of mineralization is the Musselwhite Mine in Ontario, located in the west Superior geological province of the Canadian Shield. The Musselwhite Mine has reported past production and reserves of over 5.7 million ounces of gold.

Geological and geophysical targets favourable for massive sulphide deposits rich in copper, zinc, silver and gold have been identified in the southern half of the property. The target model in this part of the property is the past producing Geco Mine in the Western Superior of Northwestern Ontario. The Geco Mine has reported past production of 58 million tonnes averaging 1.9 % copper, 3.5 % zinc and 50 g/t silver.

*\*A Qualified Person (QP), as defined in NI43-101, has not done sufficient work to classify this historical estimate as current mineral resources. Alto is not treating the historical estimate as current mineral resources, as defined in NI43-101, and thus the historical estimate should not be relied upon.*

**Alto Ventures Ltd.**  
**Management Discussion and Analysis**  
**For the six-month period ended December 31, 2011 and 2010**

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**HIGHLIGHTS SUBSEQUENT TO THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2011**

- a) On February 16, 2012, the Company announced the completion of the sale of its 40% interest in the Coldstream Gold Project to Foundation Resources Inc. ("Foundation") previously announced on November 8, 2011. This consolidation in ownership gives Foundation a 100% interest in the property.

In consideration of the acquisition of the Company's 40% interest, Foundation has paid the Company \$350,000 in cash and issued 10,000,000 common shares of Foundation at a deemed price of \$0.12 per share. Within six months, Foundation will pay to the Company a further \$950,000 in cash, subject to a potential three month extension period, for a total consideration of \$2,500,000 in cash and shares. As part of the agreement the Company will vote in support of management for a period of three years and will not tender its shares to any take-over bid not recommended by Foundation's Board of Directors.

- b) The Company had 38,894,000 warrants expire un-exercised.

**RESULTS OF OPERATIONS**

*For the three--month period ended December 31, 2011*

The Company's loss for the three-month period ended December 31, 2011 (the "Current Period") was \$169,127 or \$0.01 per share as compared with a loss of \$103,260 or \$0.01 per share for the three-month period ended December 31, 2010 (the "Comparative Period").

General and administrative expenses were \$53,439 higher in the Current Period at \$181,168 compared with \$127,729 in the Comparative Period. These increases were mainly due to increased investor and shareholder relations fees (\$24,453 versus \$19,331) due to increased advertising and promotion of the Company, increased transfer agent and filing fees (\$12,141 versus \$4,009) due to required stock exchange and private placement filings, increase in mineral property write-downs (\$10,475 versus \$Nil) due to general exploration costs not capitalized. The Company also recognized a bad debt recovery (\$Nil versus \$65,000) in the prior period which contributed to the lower administrative costs in the comparative period.

The Company capitalizes all acquisition and exploration costs until the property to which those costs relate is placed into production, sold or abandoned. The decision to abandon a property is largely determined from exploration results and the amount and timing of the Company's write-offs of capitalized mineral property costs will vary from one year to the next and typically cannot be predicted in advance. The Company earned interest and other income in the Current Period of \$1,105 compared with \$1,692 in the Comparative Period. The Company also realized management fee recoveries of \$10,936 in the Current Period compared with \$22,777 in the Comparative Period.

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**RESULTS OF OPERATIONS - continued**

*For the six-month period ended December 31, 2011*

The Company's loss for the six-month period ended December 31, 2011 (the "Current Period") was \$333,108 or \$0.02 per share as compared with a loss of \$222,413 or \$0.02 per share for the six-month period ended December 31, 2010 (the "Comparative Period").

General and administrative expenses were \$101,927 higher in the Current Period at \$358,490 compared with \$256,563 in the Comparative Period. These increases were mainly due to higher investor and shareholder relations fees (\$52,910 versus \$33,354) due to increased advertising and promotion of the Company, higher accounting fees (\$126,181 versus \$94,815) due to auditor review of the Company's Q1 financial statements upon transition to IFRS, increased stock-based compensation (\$13,732 versus \$5,787) due to granting of options to an investor relations employee, increase in mineral property write-downs (\$14,850 versus \$1,346) due to general exploration costs not capitalized, and increased transfer agent and filing fees (\$13,732 versus \$5,787) due to required stock exchange and private placement filings. The Company also recognized a bad debt recovery (\$Nil versus \$65,000) in the prior period which contributed to the lower administrative costs in the comparative period.

The Company capitalizes all acquisition and exploration costs until the property to which those costs relate is placed into production, sold or abandoned. The decision to abandon a property is largely determined from exploration results and the amount and timing of the Company's write-offs of capitalized mineral property costs will vary from one year to the next and typically cannot be predicted in advance. The Company earned interest and other income in the Current Period of \$5,565 compared with \$3,418 in the Comparative Period. The Company also realized management fee recoveries of \$21,467 in the Current Period compared with \$30,732 in the Comparative Period.

**SUMMARY OF QUARTERLY RESULTS (000's) (unaudited)**

The table below present's selected financial data for the Company's eight most recently completed quarters

|                                  | December<br>31, 2011<br><i>(IFRS)</i> | September<br>30, 2011<br><i>(IFRS)</i> | June 30,<br>2011 | March 31,<br>2010 | December<br>31, 2010 | September<br>30, 2010<br><i>(IFRS)</i> | June 30,<br>2010 | March<br>31,2010 |
|----------------------------------|---------------------------------------|--|------------------|-------------------|----------------------|--|------------------|------------------|
| <i>In thousands \$</i>           |                                       |  |                  |                   |                      |  |                  |                  |
| <b>Financial results</b>         |                                       |  |                  |                   |                      |  |                  |                  |
| Net loss (income) for period     | 156                                   | 177                                    | (92)             | 443               | 103                  | 119                                    | 1,257            | 120              |
| Basic and diluted loss per share | 0.02                                  | 0.00                                   | 0.01             | 0.00              | 0.00                 | 0.00                                   | 0.01             | 0.00             |
| Mineral property expenditures    | 143                                   | 990                                    | 447              | 692               | 117                  | 199                                    | 164              | 469              |
| <b>Balance sheet data</b>        |                                       |  |                  |                   |                      |  |                  |                  |
| Cash and short term deposits     | 1,150                                 | 907                                    | 2,302            | 2,372             | 2,105                | 630                                    | 1,052            | 383              |
| Resource properties              | 7,684                                 | 7,540                                  | 6,551            | 6,104             | 5,413                | 5,295                                  | 5,097            | 5,639            |
| Total assets                     | 9,713                                 | 9,164                                  | 9,763            | 10,079            | 8,438                | 7,158                                  | 6,908            | 7,140            |
| Shareholders' equity             | 9,378                                 | 8,960                                  | 9,246            | 9,757             | 8,123                | 6,877                                  | 6,791            | 6,942            |

Mike Koziol, P. Geo, Alto's President and Director is the qualified person responsible for the technical information reported in this MD&A.

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**RESOURCE PROPERTIES**

a) **Destiny Property, Quebec**

The Destiny Project is located in Despinassy Township, approximately 75 km northeast of Val d'Or, Quebec and lies within the Archean age Abitibi greenstone belt in the eastern Superior Province in Quebec. The property is 100% owned by Alto subject to certain underlying production royalties. Pacific North West Capital Corp has entered into an Option Agreement with Alto under which PFN can earn 60% interest in the project.

On August 8, 2011, PFN announced that it has assigned its interest in the Option Agreement with the Company to Next Gen Metals Inc. Next Gen can now earn a 60% interest in the Destiny project by assuming PFN's obligations under the original Option Agreement with Alto.

*Current Activity and Future Plans*

On November 22 the Company started a 3,500 m drilling program. The objectives of the program are to increase the contained ounces on the Destiny property by drilling the area between the DAC Deposit and the Darla Zone located one kilometre east of the DAC. Completion of the program is anticipated in March, 2012.

The Company started a surface geochemistry program in June, 2011 consisting of the collection of 2,500 soil samples and analysing them for gold and other metals using the MMI (Mobile Metal Ions) extraction techniques. The survey was completed in July.

On March 7, 2011 the company filed on SEDAR, a NI43-101 Technical Report including a new Mineral Resource Estimate for the DAC Gold Deposit on the Destiny Project located near Val d'Or, Quebec. The Report was prepared by Wardrop, a Tetra Tech Company (Wardrop) and incorporates over 7,600 m of additional drilling that was completed on the deposit subsequent to an earlier NI43-101 compliant resource estimate calculated by W. A. Hubacheck Consultants Ltd and filed on SEDAR in 2007.

Indicated and Inferred resources have been determined for the DAC Deposit. The deposit is made up of narrow high grade gold-bearing quartz veins occurring within five parallel alteration zones. These alteration zones carry gold at lower grades than the quartz veins but are significantly wider. The Wardrop report indicates that the additional drilling has expanded the DAC Deposit and significantly increased the contained ounces of gold.

At a cut-off grade of 0.5 g/t gold and using the Inverse Distance Squared (ID2) estimation method, the five gold zones contain an Indicated Resource of about 10.8 million tonnes with an average grade of 1.05 g/t gold (364,000 contained ounces). In addition, the Inferred Resource totals 8.3 million tonnes with an average grade of 0.92 g/t gold (247,000 contained ounces). The current resource estimate indicates that the contained ounces are more than five times greater than was reported in the previous resource estimate report in 2007.

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**RESOURCE PROPERTIES – continued**

Table 1 summarises the Resource Estimate at the 0.5 g/t cut-off.

Table 1. DAC Resource Estimation Summary (using ID2 method) at 0.5 g/t gold cut-off grade

| Class     | Zone  | Capping Grade (g/t) | Tonnes Above Capped Grade | Average Grade (g/t) | Average True Width (m) | Au Ounces |
|-----------|-------|---------------------|---------------------------|---------------------|------------------------|-----------|
| Indicated | 1     | 7.53                | 1,395,600                 | 0.84                | 16                     | 37,760    |
|           | 2     | 19.63               | 2,942,700                 | 1.19                | 30                     | 112,644   |
|           | 3     | 6.66                | 1,370,700                 | 0.99                | 12                     | 43,675    |
|           | 4     | 10.80               | 3,542,600                 | 1.06                | 21                     | 121,221   |
|           | 5     | 14.00               | 1,573,900                 | 0.97                | 15                     | 49,231    |
|           | Total |                     |                           | 10,825,500          | 1.05                   |           |
| Inferred  | 1     | 7.53                | 971,900                   | 0.70                | 16                     | 21,724    |
|           | 2     | 19.63               | 1,841,100                 | 1.06                | 30                     | 62,487    |
|           | 3     | 6.66                | 725,500                   | 0.93                | 12                     | 21,759    |
|           | 4     | 10.80               | 3,085,300                 | 0.89                | 21                     | 88,767    |
|           | 5     | 14.00               | 1,706,600                 | 0.96                | 15                     | 52,854    |
|           | Total |                     |                           | 8,330,400           | 0.92                   |           |

Table 2 Cut-off Sensitivities for the DAC Deposit Resource Estimate

| Class     | ID2 Cut-off (Au g/t) | Tonnes     | Average Grade (Au g/t) | Contained Ounces Au |
|-----------|----------------------|------------|------------------------|---------------------|
| Indicated | 0.2                  | 24,275,300 | 0.65                   | 509,960             |
|           | 0.4                  | 14,371,800 | 0.90                   | 415,780             |
|           | 0.5                  | 10,825,500 | 1.05                   | 364,530             |
|           | 0.6                  | 8,225,700  | 1.21                   | 318,840             |
|           | 0.8                  | 5,359,200  | 1.48                   | 255,370             |
|           | 1.0                  | 3,858,800  | 1.71                   | 212,310             |
|           | 1.5                  | 1,820,100  | 2.26                   | 132,490             |
|           | 2.0                  | 979,900    | 2.73                   | 86,100              |
| Inferred  | 0.2                  | 22,541,600 | 0.55                   | 401,190             |
|           | 0.4                  | 12,132,100 | 0.78                   | 302,500             |
|           | 0.5                  | 8,330,400  | 0.92                   | 247,590             |
|           | 0.6                  | 5,797,600  | 1.09                   | 203,210             |
|           | 0.8                  | 3,534,600  | 1.35                   | 153,420             |
|           | 1.0                  | 2,521,400  | 1.53                   | 124,390             |
|           | 1.5                  | 1,133,600  | 1.93                   | 70,360              |
|           | 2.0                  | 385,600    | 2.29                   | 28,400              |

A cut off grade of 0.5 g/t gold was selected to tabulate the total resources based on the results of similar gold projects located in Ontario and Quebec. In addition, the following parameters were considered; 4:1 stripping ratio, operating costs of \$14.30/tonne at 10,000 tonnes per day, long term gold price of \$US973/troy ounce, \$US to \$Cdn conversion of 1.02 and gold recovery of 94%. The resources block considers the mineralization to start at approximately 15 m below surface down to a depth of 400m for the deepest zone (Zone 5).

Mineral Resources are not Mineral Reserves and by definition do not demonstrate economic viability.

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**RESOURCE PROPERTIES – continued**

An exploration program including high resolution airborne magnetometer surveying as well as Borehole EM testing of selected drill holes was completed in October 2010. The high resolution magnetometer survey is helpful in tracing the Despinassy Shear zone which is the host to the DAC Deposit as well as other major gold occurrences on the property. The Borehole EM testing was used to determine if there are conductive zones outside of the holes drilled as past work has determined the possibility of copper-zinc bearing sulphide zones in addition to the gold. Some of these targets were tested with three holes, totalling 1,358 m in December. The results from this drilling were reported on March 7, 2011. These include significant anomalies in gold such as in hole DES10-139 which returned 0.35 g/t gold over 28.5 m.

**b) Coldstream Property, Ontario**

The Coldstream property is located in the Shebandowan greenstone belt approximately 100 km west of Thunder Bay, Ontario. The property covers 6,250 ha of prospective geology including the former producing North Coldstream copper-silver-gold mine and the East Coldstream gold deposit. During the past few years the Company made strategic land acquisitions through staking and purchases to cover over 10 km of a prospective mineralized structure. In 2009 Foundation Resources Inc entered into an Option Agreement with Alto under which FDN can earn an initial 60% interest in the project. On January 18, 2011, the Company announced that Foundation has earned 60% interest and that future exploration will be carried out as a 40% Alto and 60% Foundation Joint Venture.

On November 9, 2011 the Company announced the sale of its 40% interest in the Coldstream Property to its partner Foundation Resources. In consideration of the acquisition of Alto's 40% interest, Foundation will pay aggregate consideration of \$2,500,000 payable through the issuance of 10,000,000 common shares at a price of \$0.12 per share and \$1,300,000 in cash over a six month period. On the Closing Date, Foundation will pay to Alto \$350,000 in cash and issue Alto such number of common shares, up to 10 million shares, as will not result in Alto becoming a control person of Foundation. Within six months of the closing date, Foundation will pay to Alto \$950,000 in cash, subject to a potential three month extension period, and issue the balance of any common shares due to Alto. As part of the agreement Alto will vote in support of management for a period of three years and will not tender its shares to any take-over bid not recommended by Foundation's Board of Directors. The transaction is pending acceptance from the TSX Venture Exchange.

*Current Activity and Future Plans*

On September 20, 2011, the Company released a draft of an NI43-101 Technical Report including a Mineral Resource Estimate for the East Coldstream Gold Deposit prepared by Wardrop, a Tetra Tech Company (Wardrop). At a cut-off grade of 0.4 g/t gold and using the Inverse Distance Squared (ID2) estimation method, the two parallel gold horizons contain an Indicated Resource of about 3.5 million tonnes with an average grade of 0.85 g/t gold. In addition, the Inferred Resource totals approximately 30.5 million tonnes with an average grade of 0.78 g/t gold. At the 0.4 g/t cut-off the Deposit is estimated to contain 763,276 ounces of gold in the Inferred category and 96,400 ounces of gold in the Indicated category (see news release dated September 20, 2011).

There are four other significant gold targets (e.g., Iris Lake, Goldie Zone, Burchell West and Span Lake) on the Property which are not part of the current resource estimates.

A 6,000 m diamond drilling program to further test the East Coldstream Gold Deposit as well as the Iris Lake area was completed in September 2011. The drilling continued to intersect gold values consistent with the average grades of the East Coldstream Deposit. At Iris Lake, drilling intersected a number of gold anomalies and one impressive spike of 254 g/t gold over 0.5m. The high assay is related to a narrow (5 cm) quartz carbonate veinlet containing significant visible free gold. Further drilling near the high-grade hole did not intersect significant new mineralization. More drilling is required in this area.



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**RESOURCE PROPERTIES – continued**

A diamond drilling program consisting of approximately 6,000 m in 29 holes was completed in March 2011. A new high-grade gold zone was reported by the Company on March 22, 2011 in the Iris Lake area which is located approximately 1.5 km north of the four zones that comprise the East Coldstream Deposit. Results are very significant and include hole IL-11-02 which intersected 8.39 g/t gold over 11.0 m from 18.0 to 29.0 m downhole dept. The mineralization in this hole is contained within a wider envelope that averages 3.68 g/t gold over 26.9 m. Two other holes intersected significant gold values in the Iris Lake area. Discovery of high grade gold at Iris Lake is very encouraging as it generated a new target area for follow-up drilling.

The drilling that was completed in 2010 and 2011 to test the East Coldstream Deposit has confirmed the continuity of gold mineralization between widely spaced historical holes and has extended the down-plunge and lateral continuity of the deposit. In 1991 Noranda calculated the deposit to contain a non-NI 43-101 compliant historic resource of 5.1 million tonnes grading 1.4 g/t gold (234,000 ounces contained gold)\*. On September 20, 2011, the Company released preliminary Resource Estimates for the East Coldstream Deposit. These estimates were prepared in compliance with NI43-101 standards and incorporate the previous work completed as well as the 2011 drilling results.

\*A Qualified Person (QP), as defined in NI43-101, has not done sufficient work to classify this historical estimate as current mineral resources. Alto is not treating the historical estimate as current mineral resources, as defined in NI43-101, and thus the historical estimate should not be relied upon.

**c) Miner Lake, Ontario**

Alto owns 100% interest in the 1,904 ha (119 claim unit) Miner Lake Property.

*Current Activity and Future Plans*

The Company started surface exploration work in May, 2011 and continued through to September 2011. The work consisted of overburden stripping, washing and sampling. Diamond drilling of nine holes, totalling 1,732 m was completed in August. The surface exploration continued to build on work that started in 2010 and identified widespread breccia zones with persistent gold mineralization. Eight of the nine holes intersected significant gold anomalies with hole MIN11-06 intersecting 39.2 m at an average grade of 0.6 g/t gold including 4.24 g/t gold over 1.5 m.

Results from the work on Miner Lake are very positive and indicate a persistent and widespread distribution of gold in the numerous hydrothermal breccia zones. This geological setting is similar to the styles of mineralization to the Cote Lake deposit operated by Trelawney Mining and Exploration Inc (reported 4.2 million ounces contained gold). The size potential of the mineralized breccia zones is not yet known but the intrusion hosting the gold has surface dimensions of approximately 2.5 km by 1.5 km

Results obtained in 2010 and 2009 include highly anomalous gold values, in both grab and channel samples. Results from Alto's 2009 surface saw-cut channel sampling of the shear hosted mineralization returned significant gold at the Whaleback Trench averaging 1.78 g/t gold and 0.11 % copper across 19 m and includes one section of 3.36 g/t gold and 0.24% copper across 5.0 m and another section of 6.29 g/t gold and 0.08% copper across 2.0m. These higher grade sections are contained within a wide sulphide-rich envelope that is almost 50 m wide.

Channel sampling of the breccia zones in 2010 returned very encouraging results which include 6.79 g/t gold across 1.0 m and 4.14 g/t gold across 1.4 m.

The main target on this property is a large gold (with copper) deposit that might be exploited by open pit mining.

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**RESOURCE PROPERTIES – continued**

**d) Oxford Lake Property, Manitoba**

*Current activity and Future Plans*

The Company has significantly increased its property holdings to over 30,000 ha through the acquisition of two Mineral Exploration Licenses (“MEL”) to surround the existing staked claims.

On November 16, 2011 the Company announced plans for 5,000 m of drilling to be carried out starting in late January 2012. Grid preparation and ground geophysics has started in January, 2012 to confirm target locations prior to drilling. In June 2011, the Company contracted an airborne geophysical survey to be flown over the mineral claims and MEL's. The survey was flown in August and consisted of 1,700 line km of helicopter VTEM and magnetometer surveying. The survey work has delineated numerous targets favourable for gold deposits associated with banded iron formations as well as targets that exhibit high potential for massive sulphide copper, zinc, gold and silver deposits.

Gold mineralization in the northern half of the Oxford Lake property is associated with a banded iron formation (“BIF”). Alto's geophysical surveys delineated the main gold target on the property, a trend of aeromagnetic "High" anomalies 30 km long. The historical Rusty Gold Zone (Historical Resource of 800,000 tonnes averaging 6 g/t gold, see the Description of the Rusty Gold Zone Deposit below) is one of several significant gold occurrences associated with this magnetic trend. Other occurrences along the trend include the East Rusty Zone and the Blue Jay area. Historical drill intercepts at the East Rusty Zone include 4.6 g/t gold over 3.7 m. The Blue Jay area is located two kilometres east of the Rusty Gold Zone and historical drilling at Blue Jay intersected up to 10 g/t gold over 2.0 m. Gold in both the East Rusty Zone and Blue Jay area is associated with the BIF delineated by Alto's aeromagnetic survey.

Mineralization at the Rusty Gold Zone, East Rusty Zone and Blue Jay area remains open along strike and to depth. The target model for this style of mineralization is the Musselwhite Mine in Ontario, located in the west Superior geological province of the Canadian Shield. The Musselwhite Mine has reported past production and reserves of over 5.7 million ounces of gold.

Geological and geophysical targets favourable for massive sulphide deposits rich in copper, zinc, silver and gold have been identified in the southern half of the property. These targets, which also extend for over 30 km on strike, have been tested in the past by only a few drill holes. One of these holes (OX3-1-86) drilled in 1986 intersected 33 m of BIF underlain by 14 m of massive sulphide with showings of zinc within the massive sulphides. The closest drill holes on either side of OX3-1-86 are three kilometres to the west and ten kilometres to the east. Some of the best geophysical targets lie within the large gaps not drilled previously. The target model in this part of the property is the past producing Geco Mine in the Western Superior of Northwestern Ontario. The Geco Mine has reported past production of 58 million tonnes averaging 1.9 % copper, 3.5 % zinc and 50 g/t silver.

Alto is planning a 5,000 m diamond drilling program scheduled to start at the end of January 2012. This Phase One program will test some of the high potential BIF gold targets in the north half of the property, as well as targets considered to have high potential for hosting massive sulphide base metal deposits.

The Rusty Gold Zone hosts a Historical Resource of 800,000 tonnes at an average grade of 6 g/t and contains approximately 154,000 of gold. It is open along strike and to depth and is consistent in width (average 4.5 metres). The resource was estimated in 1990 and a Qualified Person (QP), as defined by NI43-101, has not done sufficient work to classify this historical estimate as current mineral resources. Alto is not treating the historical estimate as current mineral resources, as defined by NI43-101, and thus the historical estimate should not be relied upon. The Rusty Gold Zone is associated with a BIF and is one of several significant gold occurrences associated with a regional trend of aeromagnetic "High" anomalies. This aeromagnetic trend, which extends for 30 km in the northern half of Alto's Oxford Lake property, is interpreted to be the geophysical signature of the BIF that hosts gold mineralization.

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**RESOURCE PROPERTIES – continued**

e) **Mud Lake Property, Ontario**

*Current activity and Future Plans*

No field exploration work was carried out during this reporting period. The Company owns 100% interest in the project. On October 15, 2010 the Company has agreed to settle an outstanding claim of \$278,948 against Wescan Goldfield pertaining to exploration work completed on the Mud Lake project in 2008. Under the terms of the settlement, the Company received \$25,000 in cash payment on November 1, 2010 and a final payment of \$25,000 in cash was received on June 30, 2011. Wescan also issued 3,000,000 of its shares to the Company on November 1, 2010. The shares had an approximately value of \$225,000 at that time. No further action will be pursued on this matter.

f) **Cote-Archie Lake Property, Ontario**

*Current activity and Future Plans*

Kodiak Exploration Ltd has completed a program of mechanical stripping and sampling in November, 2010 and there are no results to report yet. Kodiak is working towards earning 51% interest in the property and has made the fourth and final option payment as required by the Option Agreement. Under the terms of the Option Agreement, Kodiak can earn an initial 51% interest in the project by spending \$1,000,000 on exploration work and paying Alto \$100,000 in cash or Kodiak shares over the same period. In July 2011, the Company granted a one year extension for Kodiak to complete a new total of \$1.1 million in exploration work. Kodiak has until September 4, 2011 to complete approximately \$300,000 in exploration work.

On September 1, 2011, Prodigy Gold Inc (formerly Kodiak Exploration Ltd) has informed the Company that they have terminated the Option. Alto has retained 100% ownership of the property.

g) **Greenoaks Property, Ontario**

*Current activity and Future Plans*

No field exploration work was carried during this reporting period.

The Greenoaks property lies adjacent to the Miner Lake project and surface work will be carried out simultaneous with the surface exploration program at Miner Lake.

h) **Dog Lake Property, Ontario**

*Current activity and Future Plans*

No exploration work was completed during this period and as the Company is currently focused in the Abitibi area of Quebec and the Beardmore-Geraldton area, Ontario, the Company is seeking a joint venture partner.

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**RESOURCE PROPERTIES – continued**

**i) Alcudia Property, Quebec**

*Current activity and Future Plans*

No exploration work was completed during this reporting period.

No field work was completed during this reporting period. The Company completed 11 holes totalling 1,688 m of drilling in January, 2011 to test previously delineated IP anomalies. Assay results which were reported on March 17, 2011 did not return any significant gold mineralization. The Urban-Barry gold belt continues to be very active with recent exploration success reported by Bonterra Resources and Eagle Hill Exploration Corp on near by properties. The Company will monitor activities on the neighbouring properties but has no plans for additional work at this time.

**j) Empress - Ridout Property, Ontario**

*Current activity and Future Plans*

No field exploration work was carried out during this reporting period. The claims are in good standing until 2012 and no work is planned for the first half of 2012.

**k) Three Towers (formerly Cote-801) Property, Ontario**

*Current activity and Future Plans*

No exploration work was completed during this reporting period.

In June, 2011 the Company completed a mapping and trenching program at the east end of the property.

There are no plans to carry out additional work this year.

**l) Vassal, Quebec**

The Vassal Property is located in the Vassal Township approximately 75 km north of Val d'Or and less than 5 km northwest of the Despinassy Project. The property covers approximately 5,660 ha and is 100% owned by Alto.

*Current Activity and Future Plans*

No field work was completed during this reporting period.

**m) Expansion Lake, Ontario**

No field work was completed during this reporting period.

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**RESOURCE PROPERTIES – continued**

**n) Chilko, British Columbia**

On August 24, 2011, the Company announced that it has entered into an Assignment Agreement with AVC Ventures Capital Corp. (“AVC”) whereby the Company has agreed to assign to AVC all of its rights under an existing option agreement to acquire a 100% interest in the Chilko property within the Chilcotin Plateau area of British Columbia. Under the terms of the Assignment Agreement, AVC is to pay the Company \$5,000 on execution (paid subsequently) and a further \$25,000 on closing, subject to certain adjustments.

AVC is also required to issue the Company 200,000 shares on closing and a further 100,000 shares on exercise of the option under the Option Agreement or upon AVC electing not to proceed to exercise the Option. AVC has also agreed to grant the Company a 1% net smelter returns royalty, subject to the right of AVC to repurchase one half of such royalty for \$500,000.

In order to exercise the Option, AVC is required to incur work expenditures on the Chilko Property totalling approximately \$380,000 over a period expiring April 30, 2014. AVC would also be required over the next 18 months to make cash payments to the original vendors under the Option Agreement of \$70,000 and to issue such number of shares of AVC as would have a value equal to that of 350,000 of the Company’s shares, based on each company’s trading price at the time of issuance. Under the terms of the Option Agreement the original vendors retain a 2% net smelter returns royalty and AVC has the Option to purchase one half of such royalty for \$1,000,000.

The agreement remains subject to the approval of the TSX-V.

In February of 2010, the Company has entered into an Option Purchase Agreement to acquire 100% interest in the 14,484 ha Chilko property within the Chilcotin Plateau area of British Columbia. The property is located approximately 100 km west southwest of Williams Lake and has excellent road access. It lies 15 km north of the Newton gold zone which is being explored as a bulk tonnage gold deposit by Amarc Resources Ltd, an affiliate of the Hunter Dickenson Group. The Prosperity gold-copper porphyry property operated by Taseko Mines Ltd is located 50 km south of the Chilko property. The Prosperity deposit has 1.0 billion tonnes of measured and indicated resources containing 13.3 million ounces of gold and 5.3 billion pounds of copper.

Till sampling and Soil Geochemistry programs were completed in September and the technical report was received in February, 2011. A number of gold-in-till anomalies were identified and follow-up work was recommended.

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**LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2011 the Company had approximately \$1.15 million in cash. The Company does not have any cash flow from operations as they are an exploration stage company therefore financings have been the sole source of funds.

At December 31, 2011 the Company had working capital of \$1,716,587. In the opinion of management this working capital is sufficient to support the Company's general administrative and corporate operating requirements on an ongoing basis for the next 6 months. Should the Company wish to continue fieldwork on its exploration projects in 2012, further financing will be required and the Company will likely have to go to the market to achieve this.

Given the volatility in equity markets, global uncertainty in economic conditions, cost pressures and results of exploration activities, management constantly reviews expenditures and exploration programs and equity markets such that the Company has sufficient liquidity to support its growth strategy.

During the six-month period ended December 31, 2011; the main expenditures include exploration expenditures of \$1,517,651 before contributions and recoveries of joint venture partners and operating expenditures of \$452,856. The Company received \$214,669 in joint venture recovery of exploration costs and \$55,000 in mineral property option receipts. The Company closed two tranches of financing by issuing 3,525,000 flow-through shares for total proceeds of \$634,500.

**LIQUIDITY OUTLOOK**

The Company's cash position is highly dependent on the ability to raise cash through financings and the expenditures on its exploration programs.

Management believes that even with the recent financing in December of 2011, the Company is to likely need external financings for the upcoming year in order to fund further exploration. As results of exploration programs are determined and other opportunities become available to the Company, management may complete an external financing.

The outlook is based on the Company's current financial position and is subject to change if opportunities become available based on current exploration program results and/or external opportunities. At present, the Company's operations do not generate cash inflows and its financial success is dependent on management's ability to discover economically viable mineral deposits. The mineral exploration process can take many years and is subject to factors that are beyond the Company's control.

In order to finance the Company's future exploration programs and to cover administrative and overhead expenses, the Company raises money through equity sales, from the exercise of convertible securities and from optioning its resource properties. Many factors influence the Company's ability to raise funds, including the health of the resource market, the climate for mineral exploration investment, the Company's track record, and the experience and calibre of its management. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activities. Management believes it will be able to raise equity capital as required in the long term, but recognizes that there will be risks involved which may be beyond its control.

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**GOING CONCERN**

Alto Ventures Ltd. (“the Company”) is engaged in the acquisition, exploration and development of Canadian gold projects. The head office, registered address, and records office of the Company are located at Suite #910 – 475 Howe Street, Vancouver, British Columbia V6C 2B3.

The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether its properties contain economically recoverable ore reserves. The Company has not generated any revenues from its operations to date and consequently is considered to be in the exploration stage. The amounts shown as mineral properties and deferred costs represent expenditures incurred to date, less amounts written off, and do not necessarily represent present or future values. The recoverability of the carrying amounts for mineral properties is dependent upon raising financing, the sale or joint venturing of the mineral properties, and/or the attainment of profitable operations.

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Several adverse conditions cast substantial doubt on the validity of this assumption. The Company continues to incur operating losses, has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to conduct further exploration and development of its mineral property projects. The Company’s ability to continue as a going concern is dependent upon its ability to obtain the financing necessary to complete its mineral projects by the issuance of share capital or through joint ventures, and to realize future profitable production or proceeds from the disposition of its mineral interests. At December 31, 2011, the Company has working capital of \$1,716,587, incurred losses for the quarter of \$333,108 and has an accumulated deficit of \$12,205,088.

Management plans to continue to secure the necessary financing through a combination of the issue of new equity instruments and entering into joint venture arrangements. However, there is no assurance that the Company will be successful in these actions. These financial statements do not give effect to adjustments to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

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**TRANSACTIONS WITH RELATED PARTIES**

- a) At December 31, 2011, the Company owed \$31,535 (June 30, 2010: \$13,762) to companies with directors and officers in common. There are no repayment terms or interest associated with this balance.
- b) At December 31, 2011, White Label Corporate Services Inc., a management services company with officers in common, owed the Company \$38,000. (June 30, 2010 - \$Nil) relating to a deposit for services paid to the related company.
- c) The following related party transactions were in the normal course of operations and are measured at fair value being their exchange amounts:

|   | <b>December 31, 2011</b> | December 31, 2010 |
|---|--------------------------|-------------------|
|   | \$                       | \$                |
| HRG Management Ltd. – administrative services-<br>property and equipment<br>(Company with Director and Officer in Common) | -                        | 58,945            |
| White Label Corporate Services Inc. – administrative<br>services (officers in common)                                     | <b>100,500</b>           | 38,000            |
| Mike Koziol –salary services (Officer and Company<br>with Director in Common)   | <b>78,000</b>            | 78,000            |
| Hamilton Capital Partners Limited- management fees<br>(Company with a Former Director in Common)                          | -                        | 9,000             |
| Mirador Management – management fees (Company<br>with an Officer in Common)   | <b>21,000</b>            | -                 |
| McMillan LLP – legal fees (formerly Lang Michener)<br>(Legal firm with a Partner and Company Director in<br>Common)       | <b>14,515</b>            | 5,087             |
| Gary Zak – consulting services (Officer and Director<br>in Common)  | <b>16,800</b>            | 7,415             |
| <b>Total</b>  | <b>230,815</b>           | 196,447           |

*Compensation of key management personnel*

|   | <b>2011</b> |                | 2010 |         |
|---|-------------|----------------|------|---------|
| Management fees, directors and audit committee fees | \$          | <b>133,800</b> | \$   | 120,415 |
|   | \$          | <b>133,800</b> | \$   | 120,415 |



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**COMMITMENTS**

The Company entered into a new services agreement with White Label Corporate Services Inc. (“WLM”) on November 1, 2010 and has agreed to pay a monthly corporate administration fee of \$16,750 that includes office rent, administration, accounting, corporate secretarial, chief financial officer, executive assistant, IT computer maintenance and other related services. The agreement can be terminated by either party prior to expiration with 60 days written notice. The Company shares two officers in common with WLM.

**SHARE CAPITAL INFORMATION**

The table below presents the Company’s common share data as of February 22, 2012.

|   | Price  | Expiry date       | Number of common shares |
|---|--------|-------------------|-------------------------|
| Common shares, issued and outstanding     |        |                   | 22,424,547              |
| Securities convertible into common shares |        |                   |                         |
| Broker Warrants                           | \$0.15 | December 22, 2013 | 207,500                 |
| Stock Options                             |        |                   |                         |
|   | \$1.00 | May 16, 2012      | 5,000                   |
|   | \$2.00 | December 16, 2012 | 103,500                 |
|   | \$1.00 | December 18, 2012 | 112,500                 |
|   | \$1.00 | November 15, 2015 | 10,000                  |
|   | \$1.00 | January 17, 2016  | 323,000                 |
|   | \$1.00 | May 31, 2016      | 25,000                  |
|   |        |                   | <b>23,211,047</b>       |

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

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**RECENT ACCOUNTING PRONOUNCEMENTS**

**Changes in Accounting Policies including Initial Adoption of IFRS**

The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”) for the quarter ended September 30, 2011. The first date at which IFRS was applied was July 1, 2010 (“Transition Date”). IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS.

IFRS 1 requires that the same policies are applied for all periods presented in the first IFRS financial statements and that those policies comply with IFRSs in effect as at the end of the first IFRS annual reporting period. Accordingly, the opening IFRS statement of financial position, 2010 comparatives and current period financial statements have been prepared using the same policies. The previously presented 2010 GAAP financial information has been reconciled to the IFRS information as part of the transition note in accordance with the requirements of IFRS 1. Further, the policies applied have been done on a retrospective basis unless alternative treatment is permitted or required by an IFRS 1 election or exception. There have been no changes to the adoption of IFRS during the second quarter ended December 31, 2011 that have affected the transition to IFRS.

*Elections upon first time adoption of IFRS*

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. The adoption of IFRS has not changed the Company’s actual cash flows, or resulted in any changes to the Company’s reported financial position and results of operations.

The following IFRS 1 mandatory exceptions and optional exemptions apply to Alto Ventures Ltd.

*Mandatory exemptions*

1. Estimates - An entity’s estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date in accordance with GAAP, unless there is objective evidence that those estimates were in error.

*Optional Exemptions Elected*

1. IFRS 2 Share-Based Payments – The Company has elected to take this exemption from retroactive restatement of equity instruments granted after November 2, 2002 but which vested prior to transition.
2. Business Combinations - IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied IFRS 3 to business combinations that occurred on or after July 1, 2010.

# **Alto Ventures Ltd.**

## **Management Discussion and Analysis**

### **For the six-month period ended December 31, 2011 and 2010**

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#### **Changes in Accounting Policies including Initial Adoption of IFRS - continued**

##### *Share Based Payments*

###### Canadian GAAP

- The fair value of share based payments with graded vesting are calculated as one grant and the resulting fair value is recognized on an accelerated or straight line basis over the vesting period.
- Forfeitures of awards are recognized as they occur.

###### IFRS

- Each tranche of a grant with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are recognized in the period the options are granted, and are revised for actual forfeitures in subsequent periods.

##### *Exploration and Evaluation Assets*

Under the Company's current accounting policy, acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon are capitalized. Upon adoption of IFRS, the Company has to determine the accounting policy for exploration and evaluation (E&E) assets, which are exploration expenses incurred subsequent to obtaining the right to explore the resource property

The comments on the Extractive Industries Discussion Paper published April 2010 indicate that the consensus is to capitalize E&E assets. Based on this, management has decided to continue with its current accounting policy of capitalizing all E&E expenditures and as a result, there will be no impact on the Company's financial statements upon the adoption of IFRS.

E&E assets will be classified as intangible assets rather than tangible assets. This has been chosen as expenditures reflect an increased knowledge of the property rather than a tangible asset.

##### *Flow-through Shares*

Canadian GAAP has specific guidance for the treatment of flow-through shares, which are an equity instrument unique to Canada, and therefore there is no specific equivalent guidance under IFRS. Under the IFRS framework, the Company accounts for flow-through shares whereby the premium paid for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to other liabilities and then included in income at the time the qualifying expenditures are made. Further, when a future tax liability arises as a result of flow through funds spent on mineral projects being capitalized, the corresponding entry is to future tax expense under IFRS as opposed to share capital under Canadian GAAP.

##### *Asset Impairment*

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

Currently the Company has no significant assets for which impairment testing is required and there will be no impairment charge on transition to IFRS.

# **Alto Ventures Ltd.**

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#### **Changes in Accounting Policies including Initial Adoption of IFRS - continued**

##### *Income Taxes*

Like Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable net earnings. There will be no impact on the financial statements upon implementation of IAS 12, Income Taxes.

##### *Information System, Internal Controls and Reporting Procedures*

Based on management's assessment of the information system currently used by the Company, all information required to be reported under IFRS is expected to be available with minimal system changes. In addition, based upon the Company's current operations, it is management's opinion that the adoption of IFRS is not expected to have a significant impact on internal controls and reporting procedures. The Company currently does not have any debt covenants, capital requirements, compensation arrangements, or material contracts that impact its current business activities that would affect the conversion to IFRS.

##### *Financial Statement Presentation and Disclosure*

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosure requirements. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note disclosures.

## **FINANCIAL AND OTHER INSTRUMENTS**

### **Financial Instruments – Recognition and Measurement**

The Company's financial instruments consist of cash and cash equivalents, restricted cash, marketable securities, receivables, due from joint venture partner, advances from related parties, accounts payable and accrued liabilities. The fair value of arms-length financial instruments approximates their carrying value due to their short-term maturity.

The Company has designated each of its significant categories of financial instruments as follows:

|  |                             |
|--|-----------------------------|
| Cash and cash equivalents                | Loans and receivables       |
| Marketable securities                    | Available-for-sale          |
| Accounts receivable                      | Loans and receivables       |
| Due from option partner                  | Loans and receivables       |
| Accounts payable and accrued liabilities | Other financial liabilities |

### *Amendment to Financial Instruments – Disclosures*

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

The Company has adopted these amendments for the year ended June 30, 2011.

# **Alto Ventures Ltd.**

## **Management Discussion and Analysis**

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#### **FINANCIAL AND OTHER INSTRUMENTS – *continued***

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

#### *Fair Value*

Marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables and accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments.

#### *Interest rate risk*

The Company has no material exposure at December 31, 2011 to interest rate risk through its financial instruments.

#### *Currency Risk*

As at December 31, 2011, all of the Company's cash was held in Canadian dollars, the Company's measurement currency. The Company has no operations in foreign jurisdictions at this time and as such has no currency risk associated with its operations.

#### *Credit risk*

The Company has some cash balances and no interest-bearing debt. The Company has no significant concentrations of credit risk arising from operations. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by Canadian financial institutions with which it keeps its bank accounts and management believes the risk of loss to be remote.

Accounts and other receivables consist of goods and services tax due from the Federal Government of Canada, Quebec exploration tax credits receivable, and amounts due from joint venture and option partners for funds advanced for exploration. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. Management believes the risk to be minimal.

#### *Liquidity Risk*

The Company attempts to manage liquidity risk by maintaining sufficient cash and cash equivalent balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. As at December 31, 2011, the Company had a cash balance of \$1,149,496 (including restricted cash of \$590,935 reserved for exploration expenditures) (June 30, 2011 - \$2,302,226) to settle current liabilities of \$312,495 (June 30, 2011 - \$515,849). The Company's payables may be less than face. Further information relating to liquidity risk is disclosed in Note 1 to the condensed interim financial statements.

#### *Sensitivity analysis*

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

- Cash and cash equivalents include deposits, which are at variable interest rates. Sensitivity to a plus or minus 1% change in rates would affect net loss by \$11,495 annually.
- The Company does not hold any balances in foreign currencies to give rise to exposure to foreign exchange risk.

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**CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or written down, where appropriate. The Company's accounting policy is to capitalize exploration costs consistent with Canadian GAAP and applicable guidelines for exploration stage companies.

The policy is consistent with other junior exploration companies that have not established mineral reserves objectively. An alternative policy would be to expense these costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established. Management is of the view that its current policy is appropriate for the Company at this time. Based on annual impairment reviews made by management, or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned; or exploration activity ceases on a property due to unsatisfactory results or insufficient available funding.

**RISKS AND UNCERTANTIES**

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. Although the Company has been successful in the past in obtaining financing through the sale of equity securities or joint ventures, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.

The Company's property interests are located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost, cannot be assured. These are integral requirements for exploration, development and production facilities on mineral properties. Power may need to be generated on site.

Resource acquisition, exploration, development, and operation is a highly speculative business that involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of precious metals and other minerals may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish economically viable mineral deposits, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the acquisition, exploration or development programs planned by the Company will result in a profitable commercial mining operation. The potential for any project to eventually become an economically viable operation depends on numerous factors including: the quantity and quality of the minerals discovered if any, the proximity to infrastructure, metal and mineral prices (which vary considerably over time) and government regulations. The exact effect these factors can have on any given exploration property cannot accurately be predicted but the effect can be materially adverse.

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**RISKS AND UNCERTAINTIES – *continued***

The mineral industry is intensely competitive in all its phases. The Company competes with many other mineral exploration companies who have greater financial resources and technical capacity.

The market price of precious metals and other minerals is volatile and cannot be controlled.

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

The Company's directors and officers serve as directors or officers, or may be associated with other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction.

**ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Additional disclosure concerning Alto's general and administrative expenses and mineral property costs is provided in the Company's Interim Condensed Statement of Loss contained in its Condensed Interim Financial Statements for the six-month period ended December 31, 2011. These statements are available on Alto's website at [www.altoventures.com](http://www.altoventures.com) or on its SEDAR Page Site accessed through [www.sedar.com](http://www.sedar.com).

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

In contrast to the certificate required under National Instrument 52-109 Certificate of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures "(DC&P)" and internal control over financial reporting "(ICFR)", as defined in NI 52-109, in particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- i. controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii. a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

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**DIVIDENDS**

Alto has no earnings or dividend record and is unlikely to pay any dividends in the foreseeable future as it intends to employ available funds for mineral exploration and development. Any future determination to pay dividends will be at the discretion of the Board of Directors of Alto and will depend on Alto's financial condition, results of operations, capital requirements and such other factors as the Board of Directors of Alto deem relevant.

**NATURE OF THE SECURITIES**

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

**PROPOSED TRANSACTIONS**

At the present time, there are no proposed transactions that are required to be disclosed.

**APPROVAL**

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of the Company has approved the six-month period ended financial statements and the disclosure contained in this six-month period ended December 31, 2011 MD&A. A copy of this MD&A will be provided to anyone who requests it.

**ADDITIONAL INFORMATION**

Additional information is available on the Company's website at [www.altoventures.com](http://www.altoventures.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).



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**FORWARD LOOKING INFORMATION**

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, permitting risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements which are filed and available for review on SEDAR at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements