CMX GOLD & SILVER CORP.

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

May 14, 2013

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the accompanying financial statements and for the consistency therewith of all other financial and operating data presented in these audited financial statements for the years ended December 31, 2012 and 2011. The financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

The Board of Directors approves the financial statements. Their financial statement related responsibilities are fulfilled mainly through the Audit Committee. The Audit Committee is composed of the four directors of the Company of which three are independent directors. The Audit Committee meets regularly with management and the external auditors to discuss reporting and control issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The financial statements for the year ended December 31, 2012 have been audited by MNP LLP, Chartered Accountants, and for the year ended December 31, 2011 have been audited by Grant Thornton LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards.

Management's Report on Internal Control over Financial Reporting

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's transactions are authorized, assets safeguarded and proper records maintained.

/s/ "*Jan Alston*"
Jan Alston
CEO and Director

/s/ "*Randal Squires*"
Randal Squires
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of CMX Gold & Silver Corp.:

We have audited the accompanying financial statements of CMX Gold & Silver Corp. which comprises the statements of financial position as at December 31, 2012, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the year ended December 31, 2012 and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of CMX Gold & Silver Corp. as at December 31, 2012, and its financial performance and its cash flows for the year ended December 31, 2012 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that CMX Gold & Silver Corp. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters as described in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of CMX Gold & Silver Corp. to continue as a going concern.

Other Matter
The statement of financial position as at December 31, 2011 and the statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended and notes comprising the summary of significant accounting policies and other explanatory information, were audited by another auditor who expressed an unqualified opinion on April 30, 2012.

MNP LLP
Chartered Accountants

May 14, 2013
Calgary, AB

CMX GOLD & SILVER CORP.
STATEMENTS OF FINANCIAL POSITION

As at	December 31, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents	$ 2,857	$ 2,910
Trade and other receivables	6,026	9,988
Prepaid expenses (note 5)	--	195,056
	8,883	207,954
Exploration and evaluation (note 6)	516,515	516,515
	$ 525,398	$ 724,469
LIABILITIES		
Current		
Trade and other payables	$ 593,745	$ 304,541
Due to related parties (note 7)	147,424	130,955
Dividends payable (note 8)	143,560	143,560
	884,729	579,056
Due to related parties (note 7)	45,392	--
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (note 9)	3,311,723	3,152,319
Warrants (note 11)	363,853	270,506
Deficit	(4,080,299)	(3,277,412)
	(404,723)	145,413
	$ 525,398	$ 724,469

Going concern (note 1)
Subsequent events (note 18)

Approved on behalf of the Board

Bruce Murray *("Signed")*

Jan Alston *("Signed")*

CMX GOLD & SILVER CORP.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31,		2012		2011
Expenses				
Management fees (note 7)		174,488		140,000
Professional fees		84,969		72,629
Listing and agent fees		39,896		21,075
General and administrative		30,117		50,197
Mineral property expenditures (note 6)		27,396		293,359
Shareholder reporting		1,260		15,579
Gain on foreign exchange		(502)		(1,368)
		357,624		591,471
Loss before financing expenses		(357,624)		(591,471)
Financing expenses				
Interest income		8		4
Interest and bank charges		(5,671)		(1500)
Prospectus costs (note 5)	$	(439,600)	$	--
Net loss, being comprehensive loss	$	(802,887)	$	(592,967)
Basic and diluted net loss per share	$	(0.034)	$	(0.028)
Weighted average number of shares outstanding – basic and diluted		23,791,085		20,963,486

CMX GOLD & SILVER CORP.
STATEMENTS OF CHANGES IN EQUITY

	Issued share capital #	$	Warrants	Deficit	Total
Balance December 31, 2010	14,523,254	$ 2,661,047	$ 112,250	$ (2,684,445)	$ 88,852
Units issued for debt	2,091,740	76,643	27,076	--	103,719
Private placements issued for cash	3,340,000	122,419	42,829	--	165,248
Payment of Clayton finder's fee	897,280	45,210	88,351	--	133,561
Issued for Marietta option	2,500,000	247,000	--	--	247,000
Loss for the year	--	--	--	(592,967)	(592,967)
Balance, December 31, 2011	23,352,274	$ 3,152,319	$ 270,506	$ (3,277,412)	$ 145,413
Units issued for debt	135,000	12,693	7,557	--	20,250
Private placements issued for cash	1,800,000	146,710	85,790	--	232,500
Loss for the year	--	--	--	(802,887)	(802,887)
Balance December 31, 2012	25,287,274	$ 3,311,722	$ 363,853	$ (4,080,299)	$ (404,724)

The accompanying notes are an integral part of these financial statements

CMX GOLD & SILVER CORP.
STATEMENTS OF CASH FLOWS

Years ended December 31,		2012		2011
Cash flow from operating activities				
Net loss	$	(802,887)	$	(592,967)
Items not affecting cash				
Shares issued for exploration and evaluation		-		247,000
Management fees		-		113,197
		(802,887)		(232,770)
Changes in non-cash working capital items (note 12)		508,472		43,907
		(294,415)		(188,863)
Cash flows from financing activities				
Share issuance		146,710		122,419
Warrant issuance		85,790		42,829
Due to related parties		61,862		12,748
		294,362		177,996
Net change in cash and cash equivalents		(53)		(10,867)
Cash and cash equivalents, beginning of year		2,910		13,777
Cash and cash equivalents, end of year	$	2,857	$	2,910

The accompanying notes are an integral part of the financial statements

CMX Gold & Silver Corp. (the "Company" or “CMX”) was incorporated on July 30, 1986 and changed its name from Encee Group Ltd. to Liard Resources Ltd. on August 6, 1996. The Company changed its name to CMX Gold & Silver Corp. on February 11, 2010. The Company is designated as a “reporting issuer” pursuant to the Alberta Securities Act and Regulations. The Company is an exploration stage company engaged in the acquisition, exploration and development of silver and copper/gold properties in the United States. The registered office of the Company is as follows:

CMX Gold & Silver Corp.
c/o Norton Rose LLP
3700, 400 Third Avenue SW
Calgary, Alberta
Canada T2P 4H2

The financial statements were authorized for issuance by the Board of Directors on May 14, 2013.

1. GOING CONCERN

The business of exploring resource properties involves a high degree of risk and, therefore, there is no assurance that current exploration programs will result in profitable operations. The Company has not determined whether its properties contain economically recoverable reserves of ore and currently has not earned any revenue from its mineral properties and, therefore, does not generate cash flow from its operations. Future operations are dependent upon the discovery of economically recoverable ore reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete exploration and subsequent development of its properties, and upon future profitable production or proceeds from disposition of its properties.

The financial statements of the Company have been prepared on a going concern basis which assumes that the Company will realize the carrying value of its assets and discharge its obligations as they become due in the normal course of operations. For the year ended December 31, 2012, the Company incurred a net loss of $802,887 (2011 - $592,967). As a result of the recurring losses over the Company’s history, the Company has a deficit of $4,080,299 as at December 31, 2012 (December 31, 2011 - $3,277,412). At December 31, 2012, the Company had a working capital deficiency of $875,846 (December 31, 2011 - $371,102). The Company currently does not have the necessary financing in place to support continuing losses. Historically, the Company has financed its operations and property acquisitions through the use of funds obtained from share issuances. These matters raise significant doubt about the appropriateness of the use of accounting principles applicable to a going concern.

The Company’s continuation as a going concern is dependent upon its ability to secure new financing arrangements and new equity issuances. There is no assurance that new capital will be available and if it is not, the Company may be forced to substantially curtail or cease operations. Although the use of the going concern assumption is appropriate, there can be no assurance that any steps the Company takes will be successful. To mitigate the working capital deficiency the Company plans to raise capital through equity issuance.

These financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the statement of financial position classifications that might be necessary if the Company were unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

Basis of measurement
The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for an asset on the date of the transaction.

Functional and presentation currency
The functional currency of the Company is Canadian dollars, and all amounts are presented in Canadian dollars unless otherwise stated.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from and affect the results reported in these financial statements as future confirming events occur.

Judgments
The determination of the Company’s functional currency requires management judgment based on an evaluation of all relevant information in relation to the related primary and secondary hierarchy factors. Considerations of indicators to determine functional currency include which currency is used to settle operating expenses and in which currency funds are received fro financing activities, which are assessed at each reporting date.

Management’s judgment is that until a property reaches the development stage, costs related to the exploration and evaluation of a property are best estimated to be non-recoverable and are therefore expensed in the year in which they occur. Only real property is capitalized to the statement of financial position.

Estimates
Amounts recorded for warrant valuations are based on management’s estimates of share price volatility and the expected life of the warrants. Allowances for doubtful accounts are based on management’s estimates and the estimated recoverability of accounts receivable in the future.

Tax interpretations, regulations and legislation in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

4. SUMMARY OF ACCOUNTING POLICIES

These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

Financial instruments

Financial instruments are any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial instruments are identified by the Company through a review of typical financial transactions and risk management activities. The Company also reviews non-financial contracts for potential embedded derivatives. Once identified, the financial instruments are classified and measured as disclosed below.

Financial instruments are measured at fair value on initial recognition of the instrument except in specific circumstances. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "available for sale financial assets", "held to maturity investments", "loans and receivables" or "financial liabilities measured at amortized cost" as defined by the accounting standard.

Cash and cash equivalents and trade and other receivables are classified as "loans and receivables" and trade and other payables, due to related parties and dividends payable are classified as "other financial liabilities". Loans and receivables and other financial liabilities are subsequently measured at amortized cost." Transaction costs are netted against these instruments and amortized to operations using the effective interest method.

Foreign currency translation

Foreign currency transactions are translated using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in operations.

Cash and cash equivalents

The Company's cash and cash equivalents consists of balances with financial institutions with maturities of three months or less at the date of purchase.

Exploration and evaluation assets

Prospecting costs incurred prior to obtaining the rights to explore lands are expensed as incurred.

Costs of option acquisitions and exploration expenditures related to mineral properties are expensed in the year in which they occur.

Land purchases, patented mineral claims and development costs are capitalized on a property specific cash generating unit ("CGU") basis. Upon development of a commercially viable mineral property, the related costs subject to an impairment test, will be transferred from exploration and evaluation to development and producing. Costs capitalized together with the costs of production equipment will be depleted on a unit of production basis, based on estimated proved reserves of minerals upon the commencement of production for each cgu.

Each reporting period, the Company assesses whether there is an indication that a cgu may be impaired. If any indication exists, the Company estimates the cgu's recoverable amount. A cgu's recoverable amount is the greater of fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

Fair value less costs to sell is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or cgu. When the carrying amount of a cgu exceeds its recoverable amount, the cgu will be considered impaired and written down to its recoverable amount.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or cgu is increased to its revised recoverable amount with an impairment reversal recognized in operations. The recoverable amount is limited to the original carrying amount less depreciation, depletion and amortization as if no impairment had been recognized for the asset or cgu for prior periods.

Properties are abandoned either when the lease expires or when management determines that no further work will be performed on the property. In addition, if there has been a delay in development activity for several successive years, a write down of those project capitalized costs will be charged to operations. The Company derecognizes assets at the earlier of disposal, or when no future economic benefit is expected. Any gain or loss on derecognition is recognized in operations when incurred.

Share based payments

The Company has a stock based compensation plan for employees and directors. Awards of options under the plan will be expensed based on the fair value of the options at the grant date. Fair values will be determined using the Black-Scholes option pricing model. Any consideration paid on the exercise of stock options will be credited to share capital plus the amounts originally recorded within other reserves. As at year end, the Company had not issued any options under the plan.

Income taxes

Income tax is recognized in operations except to the extent that it relates to items recognized directly in shareholders' equity, in which case, the income tax is recognized directly in shareholders' equity. Current income taxes for the current and prior periods are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period.

The Company follows the liability method of accounting for deferred taxes. Under this method deferred taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability.

Deferred tax is calculated using the enacted or substantively enacted income tax rates expected to apply when the assets are realized or liabilities are settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in the operations or in shareholders' equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Revenue recognition

Interest income is recognized on a pro rata basis over the term of the investment and when payment is reasonably assured.

Provisions

The Company will recognize the present value of estimated decommissioning liabilities when a reasonable estimate can be made. Asset retirement obligations include those legal obligations where the Company will be required to retire tangible long-lived assets such as drilling sites, mine sites and facilities. The liabilities, equal to the initial estimated present value of the decommissioning liabilities, are capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to assumptions, estimated timing or amount of discounted cash flows will be recognized as a change in the decommissioning liabilities and the related costs.

Decommissioning costs will be amortized using the unit-of-production method. Increases in the decommissioning liabilities resulting from the passage of time will be recorded as accretion of decommissioning liabilities and will be charged to operations.

Actual expenditures incurred will be charged against accumulated obligations.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

Warrants

The Company has adopted the pro-rata method for the measurement of shares and warrants issued as private placement units. The pro-rata method requires that gross proceeds and related share issuance costs be allocated to the common shares and the warrants based on the relative fair value of the component.

The fair value of the common share is based on the closing price on the closing date of the transaction and the fair value of the warrant is determined using the Black–Scholes Option Pricing Model.

The fair value attributed to the warrant is recorded as warrant equity. If the warrant is exercised, the value attributed to the warrant is transferred to share capital. If the warrant expires unexercised, the value is reclassified to contributed surplus within equity. Warrants, issued as part of private placement units, that have their term of expiries extended, are not subsequently revalued.

The Company may modify the terms of warrants originally granted. When modifications exist, the Company will maintain the original fair value of the warrant.

Loss per share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted per share amounts are computed by giving effect to the potential dilution that would occur if stock options and share purchase warrants were exercised. The Company uses the treasury stock method to determine the dilutive effect of stock options and share purchase warrants. This method assumes that proceeds received from the exercise of in-the-money instruments are used to repurchase shares at the average market price for the year. In net loss per share situations, the dilutive per share amount is the same as that for basic, as all instruments are anti-dilutive.

Future accounting pronouncements

The following new IFRS pronouncements that have been issued, that are not yet effective and have not been early adopted, and may have impact on the Company in future are discussed below.

IFRS 9 Financial Instruments (effective January 1, 2015)
This standard is the first step in the process to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized costs and fair value. Portions of the standard remain in development and the full impact of the standard on the Company's financial statements will not be known until the project is complete.

IFRS 10 Consolidated Financial Statements (effective January 1, 2013)
This standard is issued to supersede IAS 27, "Consolidated and Separate Financial Statements" and SIC 12, "Consolidation – Special Purpose Entities". This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11, Joint Arrangements (effective January 1, 2013)
This standard is issued to supersede IAS 31, "Interests in Joint Ventures" and SIC 13, "Consolidation of Jointly Controlled Entities – Non Monetary Contributions by Ventures". This standard is intended to provide a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form.

IFRS 12, Disclosure of Interest in Other Entities (effective January 1, 2013)
This standard specifies disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

IFRS 13, Fair Value Measurement (effective January 1, 2013)
The main provisions for this standard include defining fair value, setting out in a single standard a framework for measuring fair value and specifying certain disclosure requirements about fair value measurements.

IAS 27, Separate Financial Statements (effective January 1, 2013)
This has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28, Investments in Associates and Joint Ventures (effective January 1, 2013)
This standard prescribes the accounting for investments in associates and sets out the requirements for application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

IFRIC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine (effective January 1, 2013)
This summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.

The Company is currently assessing the impact that the adoption of the new standards may have on its financial statements.

5. PREPAID EXPENSES AND FINANCING COSTS

The Company had incurred up to December 31, 2012, $439,600 (December 31, 2011 - $195,056) in fees related to the preparation of a prospectus to be applied against the gross proceeds raised on the closing of the prospectus and reflected in share capital. As the prospectus did not close the amounts have been written off (see note 18).

6. EXPLORATION AND EVALUATION ASSETS

Clayton property

In 2010, the Company purchased the Clayton Mineral property for a total consideration of $516,515 for 29 patented mineral claims and 2 patented mill sites located in the State of Idaho, USA. Pursuant to the purchase agreement, the Company issued 2,500,000 shares at a price of US$0.10 per share and made a cash payment of US$250,000.

As part of the transaction, the Company agreed to pay a finder's fee of $30,000 to be settled by cash and $45,210 to be settled by the issuance of 897,280 common shares accompanied with a two year warrant to purchase 3,000,000 common shares at US$0.10 per share. The fair value of the warrants was calculated at $88,351 (see note 9 and 11).

The valuation method used to calculate the fair value of the warrants was the Black-Scholes model with the following assumptions: a term of two years, a risk free borrowing rate (per Bank of Canada) of 1.67% and volatility of 146%.

Marietta property

Effective March 17, 2011, the Company entered into an option agreement with Azteca Gold Corp. by issuing 2,500,000 common shares for the right to earn up to a 50% interest in the Marietta Property located in Nevada, USA. The agreement also requires the Company to incur US$2,000,000 of expenditures over a two year period from the date the Company commences trading on the TSX Venture Exchange. An amendment to the option agreement stipulates that if the listing does not occur by June 17, 2012, after such date either party has the right to terminate the option agreement, in which event the 2,500,000 common shares of the Company issued to Azteca Gold Corp. will be returned for cancellation.

6. EXPLORATION AND EVALUATION ASSETS, continued

Total expenditures on properties held:

Acquisition cost – Clayton – Patented Claims		$516,515
Exploration expenditures Clayton	– 2010	163,215
	– 2011	8,661
	– 2012	3,107
		174,983
Exploration expenditures Marietta	– 2011	284,698
	– 2012	24,289
		308,987
Total expenditures to date		$ 483,970

All exploration expenditures have been expensed in the years in which they occurred.

7 DUE TO RELATED PARTIES

During the year ended December 31, 2012, the Company incurred management fees of $155,738 (2011 - $132,000) to a corporation controlled indirectly by a director of the Company.

During the year ended December 31, 2012, the Company incurred management fees of $18,750 (2011 - $8,000) to the CFO of the Company.

During the year ended December 31, 2012, the Company completed private placements for gross proceeds $95,250 with directors of the Company with the issuance of 635,000 units, each unit consisting of one common share and one common share purchase warrant exercisable at $0.25 per share, expiring on October 9, 2014.

During the year ended December 31, 2011, the Company completed a $15,000 private placement with a director of the Company with the issuance of 300,000 units, each unit consisting of one common share and one common share purchase warrant exercisable at $0.15 per share, expiring on May 6, 2013.

During the year ended December 31, 2011, the Company settled $40,000 of debt due to a corporation controlled indirectly by a director of the Company with the issuance of 800,000 units, each unit consisting of one common share and one common share purchase warrant exercisable at $0.15 per share, expiring January 13, 2013.

At December 31, 2012, the Company owed to officers and directors, $192,816 (December 31, 2011 - $120,785). On September 30, 2012, a total of $45,392 of the outstanding balances was deferred, with payment due July 1, 2014. On February 28, 2013, a total of $176,163 of the outstanding balances was deferred, with payment due July 1, 2014 (see note 17). These deferred balances bear an interest rate of 10% per annum.

These transactions were measured at fair value and equal the amount of consideration established and agreed upon by the related parties.

8 DIVIDENDS PAYABLE

In 2006, the Company sold certain investments and declared a cash dividend payable to shareholders of record on September 30, 2006. Some shareholders failed to keep their addresses up to date on the shareholders' record and consequently, the Company is carrying out searches to determine the whereabouts of these shareholders. The aggregate amount of dividends payable to these shareholders is $143,560. Some shareholders have been located in the past year. It is management's intention to pay the dividends to shareholders who are found and establish their share ownership. The Company expects that a substantial portion of the amount of dividends payable to these shareholders will be claimed. Under the *Unclaimed Personal Property Act and Vested Property Act* (Alberta) any unclaimed funds held by the Company at September 1, 2013 must be paid to the Government of Alberta to be held for the benefit of the shareholders.

9. SHARE CAPITAL

Authorized: Unlimited number of shares are authorized for each class

Common shares:

The common voting shares are entitled to dividends in such amounts as the Directors may from time to time declare and, in the event of liquidation, dissolution or winding-up of the Company, are entitled to share pro rata in the assets of the Company.

Series A voting preferred shares:
Non-cumulative annual dividend at 8% of the issued price
Convertible into two Common voting shares
Redeemable at the issue price

Series B voting preferred shares:
Non-cumulative annual dividend at 8% of the issued price
Convertible into two Common voting shares
Redeemable at a price of $10 per share

The preferred shares rank in priority to the common shares as to the payment of dividends and as to the distribution of assets in the event of liquidation, dissolution or winding-up of the Company. Preferred shares may also be given such other preference over the common shares as may be determined for any series authorized to be issued.

There were no Series A or Series B shares issued as at December 31, 2012 or December 31, 2011.

On January 13, 2011, the Company issued 1,100,000 units at $0.05 per unit for settlement of $55,000 in debt. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.15 per share expiring on January 13, 2013.

On March 8, 2011, the Company issued 540,000 units at $0.05 per unit for gross proceeds of $27,000. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.15 per share expiring on March 8, 2013.

On March 8, 2011, the Company issued 470,000 units at $0.05 per unit for settlement of $22,816 in debt. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.15 per share expiring on March 8, 2013.

On March 25, 2011, the Company issued 451,740 units at $0.05 per unit for settlement of $22,403 in debt. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.15 per share expiring on March 25, 2013.

On March 25, 2011, the Company issued 897,280 common shares at US$0.05 per share as settlement of the accrued finder's fee of $45,210 with respect to the Clayton property purchase (note 6).

On May 5, 2011, the Company issued 2,500,000 common shares at $0.10 per share as payment for the Marietta Property joint venture option (note 6).

On May 6, 2011, the Company issued 2,800,000 units at $0.05 per unit for gross proceeds of $138,248. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.15 per share expiring on May 6, 2013.

On May 6, 2011, the Company issued 70,000 units at $0.05 per unit for settlement of $3,500 in debt. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.15 per share expiring on May 6, 2013.

On October 9, 2012, the Company issued 750,000 units at $0.10 per unit for gross proceeds of $75,000. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.20 per share expiring on October 9, 2014.

9. SHARE CAPITAL, continued

On October 9, 2012, the Company issued 1,050,000 units at $0.15 per unit for gross proceeds of $157,500. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.25 per share expiring on October 9, 2014.

On October 9, 2012, the Company issued 135,000 units at $0.15 per unit for settlement of $20,250 in shareholder loans. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.25 per share expiring on October 9 2014.

10. STOCK OPTIONS

The total number of stock options granted according to the employee stock option plan may not exceed 10% of the issued and outstanding shares of the Company at the time of granting. The option price per share and vesting periods shall be determined by the Board of Directors at the time that the option is granted. The exercise prices are determined by the estimated market price on the date of the grant.

As at December 30, 2012 and December 31, 2011, the Company had not granted any stock options under the plan.

11. WARRANTS

The Company estimates the fair value of warrants using the Black-Scholes option pricing model with the following assumptions (except for the warrants issued March 25, 2011, as part of the finder's fee): a term of two years, a risk free borrowing rate (per Bank of Canada) varying between 1.1% and 1.4% and volatility varying between 115% and 140%.

Warrants to purchase 1,100,000 common shares at $0.15 per share, having an expiration date of January 13, 2013 were issued as part of a shares for debt settlement completed on January 13, 2011. These warrants have been valued at $14,410.

Warrants to purchase 540,000 common shares at $0.15 per share, having an expiration date of March 8, 2013 were issued as part of a private placement completed on March 8, 2011. These warrants have been valued at $6,853.

Warrants to purchase 470,000 common shares at $0.15 per share, having an expiration date of March 8, 2013 were issued as part of a shares for debt settlement completed on March 8, 2011. These warrants have been valued at $5,965.

Warrants to purchase 451,740 common shares at $0.15 per share, having an expiration date of March 25, 2013 were issued as part of a shares for debt settlement completed on March 25, 2011. These warrants have been valued at $5,803.

Warrants to purchase 3,000,000 common shares at USD$0.10 per share, having an expiration date of 2 years from the day the Company is listed for trading on a Canadian stock exchange, were issued March 25, 2011, as part of the finder's fee accrued with respect to the Clayton property purchase. These warrants have been valued at $88,351 (note 6).

Warrants to purchase 2,800,000 common shares at $0.15 per share, having an expiration date of May 6, 2013 were issued as part of a private placement completed on May 6, 2011. These warrants have been valued at $35,976.

Warrants to purchase 70,000 common shares at $0.15 per share, having an expiration date of May 6, 2013 were issued as part of a shares for debt settlement completed on May 6, 2011. These warrants have been valued at $899.

Warrants to purchase 750,000 common shares at $0.20 per share, having an expiration date of October 9, 2014 were issued as part of a private placement completed on October 9, 2012. These warrants have been valued at $27,015.

11. WARRANTS, continued

Warrants to purchase 1,050,000 common shares at $0.25 per share, having an expiration date of October 9, 2014 were issued as part of a private placement completed on October 9, 2012. These warrants have been valued at $58,775.

Warrants to purchase 135,000 common shares at $0.25 per share, having an expiration date of October 9, 2014 were issued as part of a shares for debt settlement completed on October 9, 2012. These warrants have been valued at $7,557.

During the year and subsequent to the year end the expiration dates were extended for the following: warrants to purchase 2,500,000 shares at $0.25 per share, having an original expiration date of May 28, 2013 were extended to May 28, 2015; warrants to purchase 4,800,000 shares at $0.15 per share, having an original expiration date of December 16, 2012 were extended to June 30, 2014; warrants to purchase 1,100,000 shares at $0.15 per share, having an original expiration date of January 13, 2013 were extended to June 30, 2014; warrants to purchase 1,010,000 shares at $0.15 per share, having an original expiration date of March 8, 2013 were extended to June 30, 2014; warrants to purchase 451,740 shares at $0.15 per share, having an original expiration date of March 25, 2013 were extended to June 30, 2014; warrants to purchase 2,870,000 shares at $0.15 per share, having an original expiration date of May 6, 2013 were extended to June 30, 2014.

	Warrants Outstanding	Weighted Average Exercise Price - CAD
Balance, January 1, 2011	7,300,000	$0.18
Issued with shares for debt	2,091,740	$0.15
Issued with private placements	540,000	$0.15
Issued for finder's fee	3,000,000	USD$0.10
Issued with private placements	2,800,000	$0.15
Balance, December 31, 2011	15,731,740	$0.16
Issued with private placements	750,000	$0.20
Issued with shares for debt	135,000	$0.25
Issued with private placements	1,050,000	$0.25
Balance, December 31, 2012	17,666,740	$ 0.16

Warrants Outstanding and Exercisable	Exercise Price CAD	Expiry Date
2,500,000	$0.25	May 28, 2015
4,800,000	$0.15	June 30, 2014
1,100,000	$0.15	June 30, 2014
1,010,000	$0.15	June 30, 2014
451,740	$0.15	June 30, 2014
2,870,000	$0.15	June 30, 2014
750,000	$0.20	October 9, 2014
1,185,000	$0.25	October 9, 2014
3,000,000	USD$0.10	2 years from commencement of trading
17,666,740	$0.16	

12. SUPPLEMENTAL DISCLOSURES

Cash Flow Statement Presentation

The following table provides a detailed breakdown of certain line items contained within the cash flow from operating activities.

	2012	2011
Trade and other receivables	$ 3,962	$ 6,649
Prepaid expenses	195,056	(190,389)
Trade and other payables	289,204	227,647
Shares issued for settlement of debt	20,250	--
	$ 508,472	$ 43,907

13. SEGMENTED INFORMATION

The Company has the following geographical segments:

	Canada	United States
		December 31, 2012
Identifiable assets	$ 8,883	$ 516,515
Exploration expenditures	--	27,396
		December 31, 2011
Identifiable assets	$ 207,954	$ 516,515
Exploration expenditures	--	293,359

14. INCOME TAXES

a) The tax provision differs from the amount which would be obtained by applying the combined Canadian federal and provincial statutory income tax rate to the loss as follows:

	2012	2011
Loss for the years before income taxes	$ (802,887)	$ (592,967)
Canadian statutory rate (1)	25%	26.5%
Anticipated income tax recovery	(200,722)	(157,136)
Effect of tax rate change	(29,443)	4,494
Change in estimates and other	27,608	--
Change in deferred tax asset not recognized	202,557	152,642
	$ --	$ --

(1) The general combined Federal/Provincial tax rate lowered to 25% in 2012 from 26.5% in 2011 due to the Federal rate dropping from 16.5% in 2011 to 15% in 2012.

b) Other than as set out below, the Company does not have any other tax assets available for future use as deductions from taxable income. The Company does not have any deferred tax assets or liabilities.

The components of deferred tax balances are as follows:

	2012	2011
Non-capital loss carry-forwards	$ 603,645	$ 479,001
Capital loss carry-forwards	1,558,101	1,558,101
E&E tax value in excess of assets	109,631	114,144
Deductible portion of eligible capital expenditures	82,425	--
	2,353,802	2,151,246
Deferred tax asset not recognized	(2,353,802)	(2,151,246)
	$ --	$ --

14. INCOME TAXES, continued

c) For income tax purposes, the Company has losses carried forward which can be applied to reduce future years' taxable income. These losses expire as follows:

2014	$	222,662
2015		529,414
2026		99,810
2027		62,754
2028		242,971
2029		173,002
2030		448,824
2031		299,594
2032		335,549
	$	2,414,580

The Company has accumulated capital losses for tax purposes in the amount of $12,464,807. These losses are available to offset future years' capital gains.

15. FINANCIAL INSTRUMENTS

The Company is exposed to a variety of financial risks including credit risk, liquidity risk, and market risk.

Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Fair value of financial instruments		December 31, 2012		December 31, 2011
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and receivables				
Cash and cash equivalents	$ 2,857	$ 2,857	$ 2,910	$ 2,910
Trade and other receivables	6,026	6,026	9,988	9,988
	$ 8,883	$ 8,883	$ 12,898	$ 12,898
Financial liabilities				
Other financial liabilities				
Trade and other payables	$ 593,745	$ 593,745	$ 304,541	$ 304,541
Due to related parties	147,424	147,424	130,955	130,955
Dividends payable	143,560	143,560	143,560	143,560
Due to related parties- non-current	45,392	45,392	--	--
	$ 930,121	$ 930,121	$ 579,056	$ 579,056

The carrying amount of cash and cash equivalents, trade and other receivables, trade and other payables due to related parties and dividends payable approximate fair value due to the short term nature of these instruments.

Financial risk

a) Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, and trade and other receivables. Cash is held with reputable chartered banks from which management believes the risk of loss is minimal. Included in trade and other receivables are taxes receivable from Canadian government authorities. Management believes that the credit risk concentration with respect to financial instruments is minimal. The maximum credit risk exposure associated with the Company's financial assets is the carrying value.

15. FINANCIAL INSTRUMENTS, continued

b) Liquidity risk

Liquidity risk is that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient resources to meet liabilities when due. As at December 31, 2012, the Company had a net working capital deficiency of $875,846 (December 31, 2011 - $371,102). Management is continuously monitoring its working capital position and will raise funds through the equity markets as they are required. However, there is no certainty that the Company will be able to obtain funding by share issuances in the future.

The following amounts are the contractual maturities of financial liabilities and other commitments as at December 31, 2012:

	Total	2012	Thereafter
Trade and other payables	$ 593,745	$ 593,745	$ --
Due to related parties	192,816	147,424	45,392
Dividends payable	143,560	143,560	--
	$ 930,121	$ 884,729	$ 45,392

c) Market risk

Market risk is the risk of loss that may arise from changes in the market factors such as interest rates, commodity and equity prices and foreign currency rates.

i. Interest rate risk

The Company has cash balances and its current policy is to invest excess cash in investment-grade short-term money market accounts. The Company periodically monitors the investments it makes and is satisfied with the credit worthiness of its investments. Interest rate risk is minimal as interest rates are anticipated to remain at historically low levels with little fluctuation and any excess cash is invested in money market funds. Fluctuations in interest rates do not materially affect the Company as it either does not have significant interest-bearing instruments or the interest is at a fixed rate.

ii. Foreign currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on cash held in U.S. funds. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Foreign currency risk could adversely affect the Company, in particular the Company's ability to operate in foreign markets. Foreign currency exchange rates have fluctuated greatly in recent years. There is no assurance that the current exchange rates will mirror rates in the future. The Company currently has minimal foreign currency risk although in the future foreign currency risk may affect the level of operations of the Company. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

As the Company currently holds minimal United States currency a change in the exchange rate between the US dollar and the Canadian dollar would not have a significant effect on the Company liquidity or working capital.

16. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are:

i) To have sufficient capital to ensure that the Company can continue to meet its commitments with respect to its mineral exploration properties and to meet its day to day operating requirements in order to continue as a going concern; and

ii) To provide a long-term adequate return to shareholders.

The Company's capital structure is comprised of shareholders' equity.

The Company is an exploration stage company which involves a high degree of risk. The Company has not determined whether its proposed properties contain economically recoverable reserves of ore and currently will not earn any revenue from its mineral properties and therefore will not generate cash flow from operations. The Company's primary source of funds will come from the issuance of capital stock. The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank sponsored instruments.

The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future development of the Company. The Company has no long-term debt and is not subject to externally imposed capital requirements. There have been no changes in the Company's capital management in the current year.

17. COMMITMENTS

The Company has the following commitments in 2013 with respect to the Marietta property:

Claim payments and property taxes	$ 21,650
Remedial work	$ 20,000

18. SUBSEQUENT EVENTS

On April 11, 2013, the Company withdrew its prospectus offering.

At December 31, 2012, the Company owed to officers and directors, $192,816 (December 31, 2011 - $120,785). On September 30, 2012, a total of $45,392 of the outstanding balances was deferred, with payment due July 1, 2014. On February 28, 2013, a total of $176,163 of the outstanding balances was deferred, with payment due July 1, 2014 (see note 17). These deferred balances bear an interest rate of 10% per annum.

On February 28, 2013, a total of $144,120 of accounts payable was deferred, with payment due July 1, 2014. These deferred balances bear an interest rate of 10% per annum.