SHANE RESOURCES LTD.
Suite 212 – 116 Research Drive
Saskatoon, SK
S7N 3R3

SHANE RESOURCES LTD.

Annual Financial Statements

For the year ended December 31, 2012

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Shane Resources Ltd.

We have audited the accompanying financial statements of Shane Resources Ltd., which comprise the statements of financial position as at December 31, 2012 and December 31, 2011 and the statements of operations and comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Shane Resources Ltd. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes conditions and matters that indicate the existence of material uncertainty that may cause significant doubt about Shane Resources Ltd.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Accountants

April 26, 2013

SHANE RESOURCES LTD.

STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT

	December 31, 2012	December 31, 2011
ASSETS		
Current		
Cash	$ 338	$ 15,421
Receivables (Note 8)	4,035	619
Prepaid expenses	1,000	12,150
	5,373	28,190
Exploration and evaluation assets (Note 5)	435,100	435,100
	$ 440,473	$ 463,290
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	$ 63,419	$ 26,704
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	6,725,012	6,670,238
Other equity reserve (Note 6)	541,401	502,503
Deficit	(6,889,359)	(6,736,155)
	377,054	436,586
	$ 440,473	$ 463,290

Nature of operations (Note 1)
Going Concern (Note 2)
The accompanying notes are an integral part of the annual financial statements.

Approved and authorized by the Board of Directors on April 26, 2013:

"KYLE KOZUSKA"
Director

"MICHAEL DER"
Director

SHANE RESOURCES LTD.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	For the years ended December 31, 2012	December 31, 2011
Administration costs		
Bank charges	$ 879	$ 748
Filing fees	8,320	13,432
Insurance	13,568	15,129
Management and consulting fees	31,600	75,150
Office expense	3,138	9,450
Premises expense	9,600	11,600
Professional fees	27,341	49,802
Promotion	2,164	8,450
Share-based compensation (Note 6)	66,172	-
Telecommunications	1,417	2,755
Transfer agent	8,004	6,842
Travel and accommodation	6,335	3,262
	(178,538)	(196,620)
Other income (Note 8)	25,334	28,000
Loss on marketable securities	-	(367)
Net loss and comprehensive loss for the year	(153,204)	(168,987)
Loss per share - basic and diluted	$ (0.006)	$ (0.006)
Weighted average common shares	26,397,599	26,240,750

The accompanying notes are an integral part of the annual financial statements.

SHANE RESOURCES LTD.

STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	For the years ended December 31, 2012	December 31, 2011
Cash flows used in operating activities		
Net loss for the year	$ (153,204)	$ (168,987)
Items not involving cash:		
Loss on marketable securities	-	367
Share-based compensation	66,172	-
Non-cash working capital item changes:		
Receivables	(3,416)	57,749
Prepaid expenses	11,150	2,994
Accounts payable and accrued liabilities	36,715	4,440
	(42,583)	(103,437)
Cash flows provided by investing activities		
Proceeds from sale of marketable securities	-	2,888
	-	2,888
Cash flows provided by financing activities		
Issuance of capital stock	27,500	-
	27,500	-
Decrease in cash	(15,083)	(100,549)
Cash, beginning of year	15,421	115,970
Cash, end of year	$ 338	$ 15,421
Cash (paid) received during the year for income taxes and interest	$ -	$ -

The following are the non-cash transactions affecting cash flows from operating, investing, and financing activities during the years ended December 31, 2012 and 2011:

- 250,000 (2011 – Nil) stock options with a fair value of $27,274 (2011 - $Nil) were exercised during the year ended December 31, 2012.

The accompanying notes are an integral part of the annual financial statements.

SHANE RESOURCES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Expressed in Canadian Dollars)

	Number of Shares	Capital Stock	Other Equity Reserve	Deficit	Total Shareholders' Equity
Balance December 31, 2010	**26,240,750**	**$ 6,670,238**	**$ 502,503**	**$ (6,567,168)**	**$ 605,573**
Loss for the year	-	-	-	(168,987)	(168,987)
Balance December 31, 2011	**26,240,750**	**6,670,238**	**502,503**	**(6,736,155)**	**436,586**
Share-based compensation	-	-	66,172	-	66,172
Share issuance for exercise of stock options	250,000	54,774	(27,274)	-	27,500
Loss for the year	-	-	-	(153,204)	(153,204)
Balance December 31, 2012	**26,490,750**	**$ 6,725,012**	**$ 541,401**	**$ (6,889,359)**	**$ 377,054**

The accompanying notes are an integral part of the annual financial statements.

SHANE RESOURCES LTD.

Notes to the Annual Financial Statements
December 31, 2012
(Expressed in Canadian Dollars)

1. Nature of Operations

Shane Resources Ltd. (the "Company") is a corporation continued under the laws of Saskatchewan and has its common shares listed on the TSX Venture Exchange.

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether these properties contain any resources or any reserves which are economically recoverable.

To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

2. Going Concern

These financial statements of the Company have been prepared using International Financial Reporting Standards ("IFRS") on a going-concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities other than in the normal course of business and at amounts which may differ from those shown in the financial statements.

The amounts shown as exploration and evaluation assets represent costs net of recoveries to date, less amounts written off, and do not represent present or future values. Recoverability of the amounts shown for exploration and evaluation assets is dependent upon the discovery of resources, the conversion thereof to economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and evaluation of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, such ownership interests are in good standing.

As of December 31, 2012, the Company does not have sufficient cash on hand for settlement of its obligations. The Company intends to raise capital by future financings. However, the low price of the Company's common shares and current market conditions makes it difficult to raise funds by private placements of shares. These conditions may cast significant doubt upon the Company's ability to continue as a going concern.

3. Basis of Presentation

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

Critical accounting estimates and judgements

The preparation of these financial statements 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 year. Actual results could differ from these estimates.

Critical Judgments

The preparation of our consolidated financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 2.

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

Significant estimates made by management affecting the consolidated financial statements include:

Share-based payments

Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share based payment expense for the year along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in Note 6.

3. Basis of Presentation (cont'd…)

Deferred tax assets & liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets or liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets and liabilities, and deferred income tax provisions or recoveries could be affected.

Recoverability of exploration & evaluation assets

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether the properties contain any mineral resources or reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of those mineral reserves and upon future production or proceeds from the disposition thereof.

4. Significant Accounting Policies

These financial statements have been prepared in accordance with IFRS and reflect the following significant accounting policies.

Cash and cash equivalents

The Company considers all highly liquid short-term investments with a maturity of three months or less to be cash equivalents. As at December 31, 2012 and December 31, 2011, the Company has $Nil in cash equivalents.

Financial instruments

All financial instruments are classified into one of five categories: (1) financial assets or liabilities at fair value through profit and loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to-maturity, and (5) other financial liabilities. All financial instruments and derivatives are recognized in the statement of financial position at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities which are recognized at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Fair value through profit and loss financial instruments are measured at fair value and changes in fair value are recognized in net income/loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income/loss until the instrument is sold or impaired.

4. Significant Accounting Policies (cont'd…)

Financial instruments (cont'd…)

The Company's financial assets and liabilities are recorded and measured as follows:

Asset or liability	**Category**	**Measurement**
Cash	FVTPL	Fair value
Receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The Company classifies financial instruments measured at fair value according to the following hierarchy based on the reliability of inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying value of receivables, and accounts payable and accrued liabilities approximate their fair values due to their short terms to maturity.

Cash has been measured at fair value using Level 1 inputs.

Exploration and evaluation assets

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying, drilling, and payments made to contractors during the exploration phase. Costs not directly attributed to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer a part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which may have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company.

4. Significant Accounting Policies (cont'd…)

Exploration and evaluation assets (cont'd…)

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of operations and comprehensive loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction." Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Future reclamation costs

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of reclamation of mineral interests (exploration and evaluation assets). The net present value of future rehabilitation cost estimates is capitalized to the related assets along with a corresponding increase in the reclamation provision in the year incurred. Discount rates using a pre-tax rate that reflect 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 reclamation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

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

For the years presented, the Company does not have any significant future reclamation costs.

4. Significant Accounting Policies (cont'd…)

Loss per share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. For diluted per share computations, assumptions are made regarding potential common shares outstanding during the year. The weighted average number of common shares is increased to include the number of additional common shares that would be outstanding if, at the beginning of the year, or at time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's common shares at their average market price during the year, thereby reducing the weighted average number of common shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

Income tax

Income tax on profit or loss for the year comprises current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and other equity reserve. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The other equity reserve account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

4. Significant Accounting Policies (cont'd…)

Foreign currency translation

The functional currency and the reporting currency of the Company is the Canadian dollar. Transactions denominated in foreign currency are translated into Canadian dollars at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date, while non-monetary assets and liabilities are translated at historical rates.

Any gains or losses resulting from translation have been included in the statement of operations and comprehensive loss.

Impairment of long-lived assets

At each financial position reporting date the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year.

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders. For the years presented, net loss was the same as comprehensive loss.

New standards and interpretations not yet adopted:

The following accounting pronouncements have been made, but are not yet effective for the Company as at December 31, 2012. The Company is currently evaluating the impact of these new and amended standards on its financial statements.

Amendments to IFRS 7, *Financial Instruments: Disclosures* are effective for annual periods beginning on or after January 1, 2013 and introduce enhanced disclosure around transfer of financial assets and associated risks.

4. Significant Accounting Policies (cont'd…)

New standards and interpretations not yet adopted: (cont'd…)

In November 2009 and October 2010, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"), which represents the completion of the first part of a three-part project to replace IAS 39, Financial Instruments: Recognition and Measurement, with a new standard. Per the new standard, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income or loss section of the entity's statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to the derecognition of financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January

1, 2015, with early adoption permitted.

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"), which 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 a parent company. IFRS 10 also provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted.

In May 2011, the IASB issued IFRS 11, Joint Arrangements ("IFRS 11"), which enhances accounting for joint arrangements, particularly by focusing on the rights and obligations of the arrangement, rather than the arrangement's legal form. IFRS 11 also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and prohibits proportionate consolidation. IFRS 11 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted.

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), which is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. IFRS 12 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted.

In May 2011, the IASB issued IFRS 13, Fair Value Measurement ("IFRS 13"), which defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). IFRS 13 applies to financial statements for annual periods beginning on or after January 1, 2013, with early adoption permitted.

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements ("IAS 1"), to change the disclosure of items presented in other comprehensive income into two groups, based on whether those items may be recycled to profit or loss in the future. The amendments to IAS 1 apply to financial statements for annual periods beginning after July 1, 2012, with early adoption permitted.

Amendments to IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28) have been made. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 -13. These amendments are effective for annual

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4. Significant Accounting Policies (cont'd…)

New standards and interpretations not yet adopted: (cont'd…)

periods beginning on or after January 1, 2013.

Amendments to IAS 32, *Financial Instruments: Presentation*, are effective for annual periods beginning on or after January 1, 2014. This provides for amendments relating to offsetting financial assets and financial liabilities.

(Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets

The Company has acquired certain exploration and evaluation assets, the costs of which are as follows:

		Brownell Lake		Munro Lake		Pine East		Total
Balance December 31, 2012, 2011 and 2010	**$**	**98,012**	**$**	**172**	**$**	**336,916**	**$**	**435,100**

Cumulative Totals		Brownell Lake		Munro Lake		Pine East		Total
Acquisition costs	$	39,202	$	172	$	78,149	$	117,523
Drilling		58,810		-		258,767		317,577
Balance December 31, 2012	**$**	**98,012**	**$**	**172**	**$**	**336,916**	**$**	**435,100**

A. Brownell Lake

The Company owns a 100% interest in 2 claims in the Brownell Lake area of Saskatchewan. The property hosts a long zone of Copper-zinc mineralization.

B. Munro Lake

The Company owns a 1.6% interest in the Munro Lake area of Saskatchewan. No exploration activities have been conducted on the property.

C. Pine East

The Company owns a minimum 49% interest in this property, known as "Pine East" and Claude Resources Inc. ("Claude") owns a minimum 30% interest in the property, with the remaining interest subject to the terms of an option agreement dated June 7, 1999 (as amended). To date the Company has conducted a prospecting, stripping and trenching program on the property and Claude has conducted drill programs on this property.

6. Capital Stock and Other Equity Reserve

(Expressed in Canadian Dollars)

The authorized capital stock of the Company is an unlimited number of common shares and unlimited number of preferred shares issuable in series. As at December 31, 2012, the Company had 26,490,750 common shares outstanding, of which Nil (2011 – 150,000) were held in escrow.

The Company issued 250,000 shares during the year ending December 31, 2012 through an exercise of stock options at $0.11 per option, for total proceeds of $27,500. The fair value of these shares ($27,274) was re-classified from other equity reserve to capital stock. The Company did not issue any shares during the year ended December 31, 2011.

Stock Options

The Company has established a share-based compensation plan pursuant to which options to purchase common shares may be granted to certain officers, directors, and contractors of the Company as well as persons providing ongoing services to the Company. The aggregate number of shares issuable under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. Unless otherwise determined by the Board of Directors of the Company (the "Board"), the exercise price of options equals at least the closing price of the common shares on the day prior to the date of the grant. Stock options vest in accordance with the determination of the Board at the time of the grant and may be granted for up to a ten year term in accordance with TSX Venture Exchange policy.

A summary of the Company's incentive stock options as at December 31, 2012 is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding December 31, 2011 and 2010	1,750,000	$ 0.21
Expired	(450,000)	0.50
Exercised	(250,000)	0.11
Forfeited	(550,000)	0.10
Granted	850,000	0.10
Outstanding and exercisable, December 31, 2012	1,350,000	$ 0.11

Number of Options Outstanding and Exercisable	Exercise Price	Expiry Date	Remaining life (years)
200,000	$ 0.11	January 3, 2013	0.01 (1)
800,000	$ 0.11	January 15, 2020	7.04
350,000	$ 0.10	April 13, 2022	9.29
1,350,000			

(1) subsequently expired due to forfeiture

6. **Capital Stock and Other Equity Reserve** (cont'd…)

Options Granted

During the year ended December 31, 2012 the Company granted 850,000 stock options exercisable at a price of $0.10 per share for a period of 10 years from the date of grant. (December 31, 2011 – Nil) and recorded $66,172 in compensation expense during the year ended December 31, 2012 (December 31, 2011 – Nil). The fair value per option granted during the year was $0.08 (2011 - $Nil).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	December 31, 2012	December 31, 2011
Risk-free interest rate	1.53%	N/A
Expected life of options	10 years	N/A
Annualized volatility	157.7%	N/A
Expected forfeitures	0%	N/A
Dividend rate	0%	N/A

Volatility is the expected future fluctuations in the Company's stock price. Volatility is calculated based on the historical prices of the Company's stock.

Warrants

The Company had no outstanding share purchase warrants as at December 31, 2012 and 2011.

Other Equity Reserve

Other equity reserve includes the value of all past stock options granted and vested.

(Expressed in Canadian Dollars)

7. Income Taxes

A reconciliation of income taxes at statutory rates is as follows:

	For the years ended December 31, 2012	December 31, 2011
Loss before income taxes	$ (153,204)	$ (168,987)
Combined federal and provincial statutory income tax rate	25%	27%
Expected income tax recovery at statutory tax rates	(38,000)	(45,000)
Permanent difference	17,000	-
Impact of future tax rates applied versus current statutory rate and other	-	6,000
Change in unrecognized deductible temporary differences	21,000	39,000
Total future income tax recovery	**$ -**	**$ -**

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

The significant components of the Company's future tax assets (liabilities) are as follows:

	December 31, 2012	December 31, 2011
Non-capital losses	$ 263,000	$ 242,000
Mineral property and related exploration expenditures	(4,000)	(4,000)
	$ 259,000	$ 238,000
Unrecognized deferred tax assets	(259,000)	(238,000)
Net deferred tax assets	$ -	$ -

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	December 31 2012	Expiry	December 31 2011	Expiry
Property and equipment	$ 1,000	No expiry	$ 1,000	No expiry
Non-capital losses available for future periods	1,054,000	2014-2032	968,000	2014-2031
Exploration and evaluation assets	(18,000)	No expiry	(18,000)	No expiry

Tax attributes are subject to review and potential adjustment by tax authorities.

(Expressed in Canadian Dollars)

8. Related Party Transactions

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Remuneration attributed to key management personnel can be summarized as follows:

	For the years ended December 31, 2012	2011
Share-based compensation	$ 27,247	$ -
Short-term benefits*	30,550	46,600
	$ 57,797	$ 46,600

*includes management and consulting fees

Other related parties

Other related parties include BlackSun Inc. where one owner is a former director for the Company, Star Uranium Corp. and United Uranium Corp. which share common directors and management with the Company, Davis LLP where one employee is a director for the Company, and Paradigm Portfolio Management Corp. where one owner is a director and management for the Company.

Transactions entered into with related parties other than key management personnel include the following:

	For the years ended December 31, 2012	2011
BlackSun Inc.	$ 9,836	$ 13,647
Davis LLP.	660	1,348
Paradigm PMC	-	1,421
	$ 10,496	$ 16,416

(Expressed in Canadian Dollars)

8. Related Party Transactions (cont'd…)

Other related parties (cont'd…)

During the years ended December 31, 2012 and 2011, the Company received premises rent and office administrative income from the following related parties:

	For the years ended December 31, 2012	2011
Star Uranium Corp.	$ 12,667	$ 14,000
United Uranium Corp.	12,667	14,000
	$ 25,334	$ 28,000

As at December 31, 2012, receivables includes $1,750 (December 31, 2011 - $Nil) due from United Uranium Corp. and $1,750 (December 31, 2011 - $Nil) from Star Uranium Corp; companies sharing common directors.

As at December 31, 2012, accounts payable and accrued liabilities included $21,000 (December 31, 2011 - $2,625) due to a company owned by the CFO.

The amounts due to and from the related parties are non-interest bearing, with no fixed terms of repayment.

9. Financial Instruments and Capital Risk Management

The Company's financial instruments consist of cash, receivables, and accounts payable and accrued liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is all held at large Canadian financial institutions in interest bearing accounts. The Company has no investment in asset-backed commercial paper.

The Company's receivables consist mainly of receivables from related companies and GST/HST receivable due from the government of Canada. The Company does not believe it is exposed to significant credit risk.

9. Financial Instruments and Capital Risk Management (cont'd…)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company as of December 31, 2012 does not have sufficient cash on hand for settlement of its obligations. The Company intends to raise capital by future financings; however, the low price of the Company's common shares and current market conditions may make it difficult to raise funds by private placement of shares.

Market risk

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

a) Interest rate risk

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

The risk that the Company will realize a loss as a result of a decline in the interest rate is low, as the Company has no investments with variable interest rates.

b) Foreign currency risk

As at December 31, 2012, the Company's expenditures are predominantly in Canadian dollars, and any future equity raised is expected to be predominantly in Canadian dollars. As a result, the Company believes its currency risk to be minimal.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

9. Financial Instruments and Capital Risk Management (cont'd…)

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 exploration and evaluation of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its cash 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, issue debt, acquire or dispose of assets or adjust the amount of cash and investments.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

10. Segmented Information

The Company operates in one reportable segment, being the acquisition, exploration and evaluation of mineral resources. All of the Company's resource properties are located in Canada.