# ARROWSTAR RESOURCES LTD.

# CONSOLIDATED FINANCIAL STATEMENTS

# DECEMBER 31, 2012

(Expressed in Canadian Dollars)

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Arrowstar Resources Ltd.

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

***Management's Responsibility for the Consolidated Financial Statements***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Arrowstar 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 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Arrowstar Resources Ltd.'s ability to continue as a going concern.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada Chartered Accountants

April 19, 2013

**ARROWSTAR RESOURCES LTD.**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash (Note 3) | $ 297,332 | $ 1,654,511 |
| Marketable securities (Note 4) | 5,000 | 22,000 |
| Receivables (Note 5) | 37,925 | 22,948 |
| Prepaid expenses | 14,500 | 9,500 |
| | 354,757 | 1,708,959 |
| **Equipment** (Note 6) | 10,510 | 1,415 |
| **Exploration and evaluation advances**(Note 7) | 15,721 | - |
| **Exploration and evaluation assets**(Note 7) | 519,548 | 706,691 |
| | $ 900,536 | $ 2,417,065 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Note 8) | $ 178,390 | $ 213,959 |
| **Shareholders' equity** | | |
| Share capital (Note 10) | 18,492,446 | 18,188,654 |
| Reserve (Note 10) | 2,965,996 | 2,621,958 |
| Deficit | (20,736,296) | (18,607,506) |
| | 722,146 | 2,203,106 |
| | $ 900,536 | $ 2,417,065 |

**Nature of operations and going concern** (Note 1)
**Subsequent events** (Note 17)

**On behalf of the Board:**

*"Robert Card"* Director *"Andrew Jarvis"* Director

The accompanying notes are an integral part of these consolidated financial statements.

**ARROWSTAR RESOURCES LTD.**
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian Dollars)

| | 2012 | 2011 |
|---|---|---|
| **EXPENSES** | | |
| Administration fees | $ 172,000 | $ 51,000 |
| Consulting fees | 298,101 | 190,854 |
| Depreciation | 2,620 | 607 |
| Foreign exchange loss | 473 | 4,303 |
| Investor relations | 115,535 | 45,436 |
| Office | 31,217 | 17,107 |
| Professional fees | 104,293 | 134,871 |
| Property investigation | 94,627 | 9,738 |
| Rent | 48,216 | 10,665 |
| Regulatory fees | 26,293 | 27,068 |
| Share-based compensation (Note 10) | 249,838 | 188,480 |
| Travel | 76,635 | 72,937 |
| | (1,219,848) | (753,066) |
| Interest income | 7,647 | 4,158 |
| Gain on settlement of debt | - | 5,264 |
| Recovery of exploration and evaluation asset costs | - | 25,000 |
| Gain on farm-out arrangement (Note 7) | - | 41,042 |
| Litigation costs (Note 12) | - | (4,729) |
| Recovery from property settlement (Note 12) | - | 1,515,750 |
| Unrealized loss on marketable securities (Note 4) | (17,000) | (23,000) |
| Write-off of exploration and evaluation assets (Note 7) | (899,589) | - |
| | (908,942) | 1,563,485 |
| **Income (loss) and comprehensive income (loss) for the year** | $ (2,128,790) | $ 810,419 |
| **Earnings (loss) per common share** | | |
| -Basic and diluted | $ (0.03) | $ 0.02 |
| **Weighted average number of common shares outstanding** | | |
| -Basic and diluted | 65,077,588 | 48,330,383 |

The accompanying notes are an integral part of these consolidated financial statements.

**ARROWSTAR RESOURCES LTD.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian Dollars)

| | 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income/(loss) for the year | $ (2,128,790) | $ 810,419 |
| Items not affecting cash: | | |
| Depreciation | 2,620 | 607 |
| Gain on farm-out arrangement | - | (41,042) |
| Gain on settlement of debt | - | (5,264) |
| Recovery on exploration and evaluation costs | - | (25,000) |
| Share-based compensation | 249,838 | 188,480 |
| Unrealized loss on marketable securities | 17,000 | 23,000 |
| Unrealized foreign exchange loss on note payable | - | 1,872 |
| Write-off of exploration and evaluation assets | 899,589 | - |
| Changes in non-cash working capital items: | | |
| Increase in receivables | (14,977) | (15,880) |
| Increase in prepaid expenses | (5,000) | (9,500) |
| Decrease in accounts payable and accrued liabilities | (72,522) | (73,926) |
| Net cash provided by (used in) operating activities | (1,052,242) | 853,766 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from the issuance of units | 450,000 | 1,424,000 |
| Share issue costs paid | (52,008) | (123,291) |
| Note payable | - | (76,467) |
| Net cash provided by financing activities | 397,992 | 1,224,242 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Equipment | (11,715) | - |
| Exploration and evaluation advances | (15,721) | - |
| Exploration and evaluation assets | (675,493) | (606,832) |
| Proceeds from the sale of exploration and evaluation data | - | 25,000 |
| Recovery on exploration and evaluation assets | - | 25,000 |
| Net cash used in investing activities | (702,929) | (556,832) |
| **Change in cash during the year** | (1,357,179) | 1,521,176 |
| **Cash, beginning of year** | 1,654,511 | 133,335 |
| **Cash, end of year** | $ 297,332 | $ 1,654,511 |
| **Cash paid during the year for:** | | |
| Income taxes | $ - | $ - |
| Interest | - | - |

**Supplemental disclosure with respect to cash flows** (Note 11)

The accompanying notes are an integral part of these consolidated financial statements.

**ARROWSTAR RESOURCES LTD.**
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

| | Common Shares | | Reserves | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Share compensation | Warrants | Deficit | Total |
| Balances as at December 31, 2010 | 39,081,369 | $ 16,769,445 | $ 2,433,478 | $ - | $ (19,417,925) | $ (215,002) |
| Shares issued for: | | | | | | |
| Private placement - units | 20,240,000 | 1,424,000 | - | - | - | 1,424,000 |
| Exploration and evaluation assets | 1,300,000 | 118,500 | - | - | - | 118,500 |
| Share issue costs | - | (123,291) | - | - | - | (123,291) |
| Grant of stock options | - | - | 188,480 | - | - | 188,480 |
| Net income | - | - | - | - | 810,419 | 810,419 |
| Balances as at December 31, 2011 | 60,621,369 | 18,188,654 | 2,621,958 | - | (18,607,506) | 2,203,106 |
| Shares issued for: | | | | | | |
| Private placement - units | 6,000,000 | 360,000 | - | 90,000 | - | 450,000 |
| Share issue costs - units | 280,000 | 16,800 | - | 4,200 | - | 21,000 |
| Share issue costs - paid by units | - | (21,000) | - | - | - | (21,000) |
| Share issue costs - paid by cash | - | (52,008) | - | - | - | (52,008) |
| Grant of stock options | - | - | 249,838 | - | - | 249,838 |
| Loss and comprehensive loss | - | - | - | - | (2,128,790) | (2,128,790) |
| Balances as at December 31, 2012 | 66,901,369 | $ 18,492,446 | $ 2,871,796 | $ 94,200 | $ (20,736,296) | $ 722,146 |

The accompanying notes are an integral part of these consolidated financial statements.

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Arrowstar Resources Ltd. (the "Company") was incorporated on October 14, 1987 under the laws of British Columbia. The Company's head office address is Suite 507 – 475 Howe Street, Vancouver, BC, V6C 2B3. The Company is listed on the TSX Venture exchange ("TSX-V") under the symbol AWS. To date, the Company has not earned operating revenue.

The Company is in the process of acquiring its exploration and evaluation assets and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assetsand related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

As at December 31, 2012, the Company has working capitalof $176,367 (2011 – $1,495,000) and an accumulated deficit of $20,736,296 (2011 - $18,607,506).The Company expects to incur further losses in the development of its business. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and thus be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

These consolidated financial statements have been prepared in accordance with IAS 1 ' Presentation of Financial Statements' ("IAS 1") using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on April 19, 2013.

### Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policiesset out in Note 2. In addition, these consolidated financial statements have been prepared using the accrual basis ofaccounting, except for cash flow information.

### Basis of consolidation

The consolidated financial statements of the Company include the balances of its subsidiary,Gulfside Alaska Inc. (USA), which is a wholly owned subsidiary incorporated in the state of Alaska, USA.

The Company consolidates the subsidiary on the basis that it controls the subsidiary through its ability to govern its financial and operating policies.

All intercompany transactions and balances are eliminated on consolidation.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Foreign currency transactions

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

### Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recorded over the estimated useful lives of the assets on the declining balance basis at a rate of 30%.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment is composed of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

### Exploration and evaluation assets

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. All costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Impairment

At the end of each reporting period the carrying amounts of the Company's 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. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to 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 profit or loss for the year. 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 subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate and its recoverable amount, but to an amount that 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.

### Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash and marketable securities are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables are classified as loans and receivables.The Company's exploration and evaluation advances are classified as held to maturity. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. At December 31, 2012, the Company has not classified any financial assets as available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

### Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. At December 31, 2012, the Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities and note payable are classified as other financial liabilities.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

**Financial liabilities** (cont'd…)

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

### Provisions

*Rehabilitation provisions*

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the year in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with rehabilitation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these rehabilitation costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time and changes in the estimated future cash flows underlying any initial estimates.

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss.

The Company had no rehabilitation obligations as at December 31, 2012.

*Other provisions*

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

The Company had no other provisions as at December 31, 2012.

### Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of commonshares and share options are recognized as a deduction from equity, net of any tax effects.

### Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Significant accounting estimates and judgments

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amount of revenues and expenses during the reporting year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Significant accounts that require estimates as the basis for determining the stated amounts include the fair value of financial instruments, deferred income taxes, evaluating the fair value of exploration and evaluation assets, useful lives of equipment, and share-based compensation.

### Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. Warrants that are part of units are assigned a value based on the residual value, if any, and included in reserves.

Warrants that are issued as payment for agency fee or other transactions costs are accounted for as share-based payments.

### Share-based compensation

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from share compensation reserve to share capital.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based compensation to non-employees, who are not providing similar services to employees, are measured at a the grant date by using the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services received cannot be reliably measured, and are recorded at the date the goods or services are received.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Income taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial positionreporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the financial position reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### Flow-through Shares

Flow-through shares are securities issued to investors whereby the deductions for tax purposes related to resource exploration and evaluation expenditures may be claimed by investors instead of the entity. On issuance, any premium recorded on the flow-through share, being the difference in price over a common share with no tax attributes, is recognized as a liability.

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. As eligible expenditures are incurred, the deferred income tax liability associated with the renounced tax deductions is recognized through profit or loss with a pro-rata portion of the deferred premium liability.

### Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

### New standards, amendments and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as ofDecember 31, 2012 and have not been applied in preparing these consolidated financial statements.

*Financial instruments*

IFRS 7 – Financial Instruments: Disclosures applied to offsetting financial assets and financial liabilities in accordance with IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

**New standards, amendments and interpretations not yet effective**(cont'd…)

*Financial instruments*

IFRS 9 - Financial Instruments: Classification and Measurement, effective for annual periods beginning onor after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statementsfor the period beginning January 1, 2015, and has not yet considered the potential impact of the adoption of IFRS 9.

*Consolidation*

The IASB issued IFRS 10 - Consolidated Financial Statements in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities and replaces current standards on consolidation, IAS 27 - Consolidated and Separate Financial Statements and SIC-12, with a single standard on consolidation. IFRS 10 has an effective date ofJanuary 1, 2013. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

*Joint ventures*

The IASB issued IFRS 11 – Joint Arrangements on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and requires such entities to be accounted for using the equity method and proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. This amendment is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact IFRS 11 is expected to have on its consolidated financial statements.

*Interests in other entities*

The IASB issued IFRS 12 – Disclosure of Interests in Other Entities in May 2011 and it applies to annualperiods beginning on or after January 1, 2013. IFRS 12 requires disclosure of an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The Company is evaluating the impact the final standard will have on its consolidated financial statements.

*Fair-value measurement*

IFRS 13 - Fair Value Measurement: effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and newrequired disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning April 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

## 3. CASH

The Company's cash consists of the following:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Cash held with banks | $296,771 | $ 1,643,166 |
| Cash held in foreign currencies | 561 | 11,345 |
| Total | $ 297,332 | $ 1,654,511 |

## 4. MARKETABLE SECURITIES

On November 8, 2011, the Company received 100,000 shares in Ocean Park Ventures Corp. as part of a property option agreement. The shares were valued at $45,000 on receipt and have been re-valued at December 31, 2012to their fair market value of$5,000 (2011 – $22,000).

## 5. RECEIVABLES

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| HST receivable | $ 37,925 | $ 21,829 |
| Other receivables | - | 1,119 |
| | $ 37,925 | $ 22,948 |

The Company does not have any significant balances that are past due. All accounts receivable are current, and the Company does not have any allowance for doubtful accounts. Due to their short-term maturities, the fair value of accounts receivable approximates their carrying value.

## 6. EQUIPMENT

The equipment account is broken down as follows:

| Office equipment | Cost | Depreciation | Net Book Value |
|---|---|---|---|
| As at December 31, 2010 | $ 3,915 | $ (1,893) | $ 2,022 |
| Additions | - | (607) | 607 |
| Disposals | - | - | - |
| **As at December 31, 2011** | $ 3,915 | $ (2,500) | $ 1,415 |

## 6. EQUIPMENT(cont'd…)

| Office equipment | Cost | Depreciation | Net Book Value |
|---|---|---|---|
| Additions | $ 11,715 | $ (2,620) | $ 9,095 |
| Disposals | - | - | - |
| **As at December 31, 2012** | $ 15,630 | $(5,120) | $ 10,510 |

## 7. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets 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 exploration and evaluation assets. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its properties are in good standing.

The Company has deposits with vendors related to exploration projects totaling $15,721 as at December 31, 2012 (2011 - $nil).

**Port Snettisham – Alaska USA**

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the State of Alaska, USA.In order to acquire the interest in the project, the Company must complete the following:

Make cash payments aggregating $270,000 payable as follows:

- $25,000 (paid) on execution of the agreement;
- $95,000 (paid)within seven days of TSX approval; and
- $150,000 on August 18, 2014.

Incur exploration expenditures aggregating $3,300,000 and make additional cash payments aggregating $3,650,000 in order to maintain the option and earn an interest in the property as follows:

| Year of term and expenditure date | Minimum property expenditures | | Cash payments | Total deemed interest earned (%) |
|---|---|---|---|---|
| On or before October 31, 2012 | $100,000 | (incurred) | $- | 0 |
| On or before October 31, 2013 | 200,000 | (incurred) | - | 0 |
| On or before October 31, 2014 | 1,000,000 | | - | 51 |
| On or before October 31, 2016 | - | | 500,000 | 51 |
| On or before October 31, 2018 | 2,000,000 | | - | 75 |
| On or before October 31, 2018 | - | | 3,000,000 | 100 |

The vendor retains a 2.5% NSR and at any time prior to the earlier of October 31, 2018 and on the first anniversary date upon which commercial production commences on the property, the Company may elect to reduce the NSR to 1.5% by paying the sum of $1,500,000.

## 7. EXPLORATION AND EVALUATION ASSETS(cont'd…)

**Argonaut and Golden Fleece - British Columbia**

During fiscal 2011, the Company acquired a 100% interest in certain claims located in the Atlin Mining Division of British Columbia.

The vendor retained a 1% NSR.

During fiscal 2011, 100% interest in the Argonaut and Golden Fleece properties were farmed-out for proceeds of $25,000 (received) and 300,000 (100,000 were received) common shares of Ocean Park.

During fiscal 2012, the optionee for Argonaut and Golden Fleece informed the Company that it would not be exercising its option on the properties. As a result, all related claims were forfeited subsequent to year end and the Company retains no exploration and evaluation asset for the projects.

**Bryer Group – British Columbia**

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the Atlin Mining Division in British Columbia, Canada.In order to acquire the interest in the project, the Company must complete the following:

- Cash payments aggregating $15,000,
- Incur $225,000 in exploration expenditures on the property, and
- Issue of 700,000 common shares of the Company.

During fiscal 2012, all related exploration and evaluation assets for the Bryer Group of properties in the amount of $18,016 have been written-off.

**Harris Group – British Columbia**

During fiscal 2012, the Company entered into an option agreement to acquire 100% of certain claims located in British Columbia, Canada.In order to acquire the interest in the project, the Company must complete the following:

- Cash payments aggregating $100,000,
- incur $225,000 in exploration expenditures on the property, and
- Issue of 800,000 common shares of the Company.

During fiscal 2012, all related exploration and evaluation assets for the Harris Group of properties in the amount of $79,188 have been written-off.

## 7. EXPLORATION AND EVALUATION ASSETS(cont'd…)

### Northern Treasure – British Columbia

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the Atlin Mining Division in British Columbia, Canada.In order to acquire the interest in the project, the Company must complete the following:

- Cash payments aggregating $30,000,
- incur $225,000 in exploration expenditures on the property, and
- issue of 800,000 common shares of the Company.

During fiscal 2012, all related exploration and evaluation assets for the Northern Treasure property in the amount of $101,152 have been written-off.

### Rannie Lake – Newfoundland

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in Newfoundland, Canada.In order to acquire the interest in the project, the Company must complete the following:

- Make cash payments aggregating $3,515,000, and
- incur exploration expenditures aggregating $2,700,000.

During fiscal 2012, all related exploration and evaluation assets for the Rannie Lake property in the amount of $220,249 have been written-off.

### Roberts Lake – Quebec

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in Quebec, Canada.In order to acquire the interest in the project, the Company must complete the following:

- Make cash payments aggregating $3,540,000,
- issue 1,000,00 (issued at a value of $90,000) common shares of the Company, and
- incur exploration expenditures aggregating $2,900,000.

During fiscal 2012, all related exploration and evaluation assets for the Roberts Lake property in the amount of $480,984 have been written-off.

## 7. EXPLORATION AND EVALUATION ASSETS (cont'd…)

| December 31, 2012 | Port Snettisham AK, USA | Bryer BC, Canada | Harris Group BC, Canada | Northern Treasure BC, Canada | Rannie Lake NL, Canada | Roberts Lake QC, Canada | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition costs** | | | | | | | |
| Balance, December 31, 2011 | $ 154,423 | $ 16,172 | $ - | $ 33,438 | $ 139,849 | $ 267,793 | $ 611,675 |
| Additions: | | | | | | | |
| Cash | - | - | 20,000 | - | 22,000 | - | 42,000 |
| Other | 1,421 | - | 3,251 | - | - | - | 4,672 |
| Shares | - | - | - | - | - | - | - |
| Annual acquisition costs | 1,421 | - | 23,251 | - | 22,000 | - | 46,672 |
| Total acquisition costs | 155,844 | 16,172 | 23,251 | 33,438 | 161,849 | 267,793 | 658,347 |
| **Exploration costs** | | | | | | | |
| Balance, December 31, 2011 | - | 1,844 | - | 61,547 | 31,625 | - | 95,016 |
| Additions: | | | | | | | |
| Assays | 24,555 | - | 2,013 | 800 | - | - | 27,368 |
| Drilling | 3,120 | - | - | - | - | - | 3,120 |
| Geological reports | 29,365 | - | - | 2,697 | 26,775 | 39,510 | 98,347 |
| Geophysical | 243,297 | - | 8,423 | 2,670 | - | 172,681 | 427,071 |
| Renewal | 7,467 | - | - | - | - | - | 7,467 |
| Field | 55,900 | - | 45,501 | - | - | 1,000 | 102,401 |
| Annual exploration costs | 363,704 | - | 55,937 | 6,167 | 26,775 | 213,191 | 665,774 |
| Total exploration costs | 363,704 | 1,844 | 55,937 | 67,714 | 58,400 | 213,191 | 760,790 |
| Write-off | - | (18,016) | (79,188) | (101,152) | (220,249) | (480,984) | (899,589) |
| Balance, December 31, 2012 | $ 519,548 | $ - | $ - | $ - | $ - | $ - | $ 519,548 |

## 7. EXPLORATION AND EVALUATION ASSETS (cont'd…)

| December 31, 2011 | Port Snettisham AK, USA | Northern Treasure BC, Canada | Bryer BC, Canada | Golden Fleece BC, Canada | Argonaut BC, Canada | Rannie Lake NL, Canada | Roberts Lake QC, Canada | Total |
|---|---|---|---|---|---|---|---|---|
| **Acquisition costs** | | | | | | | | |
| Balance, December 31, 2010 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Additions: | | | | | | | | |
| Cash | 120,000 | 10,000 | 5,000 | 2,500 | 2,500 | 115,000 | 140,000 | 395,000 |
| Other | 34,423 | 5,438 | 672 | - | - | 24,849 | 37,793 | 103,175 |
| Shares | - | 18,000 | 10,500 | - | - | - | 90,000 | 118,500 |
| Annual acquisition costs | 154,423 | 33,438 | 16,172 | 2,500 | 2,500 | 139,849 | 267,793 | 616,675 |
| Total acquisition costs | 154,423 | 33,438 | 16,172 | 2,500 | 2,500 | 139,849 | 267,793 | 616,675 |
| **Exploration costs** | | | | | | | | |
| Balance, December 31, 2010 | - | - | - | - | - | - | - | - |
| Additions: | | | | | | | | |
| Assays | - | 1,544 | 1,844 | 1,465 | - | - | - | 4,853 |
| Geological reports | - | - | - | - | - | 31,625 | - | 31,625 |
| Geophysical | - | 47,971 | - | 1,952 | - | - | - | 49,923 |
| Field | - | 12,032 | - | 20,541 | - | - | - | 32,573 |
| Total and annual exploration costs | - | 61,547 | 1,844 | 23,958 | - | 31,625 | - | 118,974 |
| Recovery | - | - | - | (26,458) | (2,500) | - | - | (28,958) |
| Balance, December 31, 2011 | $ 154,423 | $ 94,985 | $ 18,016 | $ - | $ - | $ 171,474 | $ 267,793 | $ 706,691 |

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| Due within the year | | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Trade payables | $ | 153,390 | $ | 173,959 |
| Accrued liabilities | | 25,000 | | 40,000 |
| | $ | 178,390 | $ | 213,959 |

## 9. RELATED PARTY TRANSACTIONS

Key management personnel compensation for the year ended December 31was:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Short-term benefits paid or accrued: | | | | |
| Administration fees | $ | 172,000 | $ | 51,000 |
| Consulting fees | | 69,000 | | 28,000 |
| Deferred exploration costs | | 115,807 | | - |
| Property investigation | | 3,113 | | - |
| | $ | 359,920 | $ | 79,000 |
| Share-based compensation | | 117,995 | | 114,927 |
| **Total remuneration** | $ | 477,915 | $ | 193,927 |

Accounts payable and accrued liabilities as at December 31, 2012 included $79,153 (2011 - $61,525) owed to a director and companies controlled by a director or officer.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE

Authorized – Unlimited common shares without par value

Please refer to the Statement of Changes in Equity for a summary of changes in share capital and reserves for the years ended December 31, 2012 and 2011.

During fiscal 2012 the Company:

- completed a non-brokered private placement for gross proceeds of $450,000 by issuing 6,000,000 units. A finder's fee of 280,000 units valued at $21,000 was issued as part of the private placement. Each unit consists of one common share and one share purchase warrant exercisable at a price of $0.15 for a period of two years.

During fiscal 2011 the Company:

- issued 1,300,000 shares valued at $118,500 pursuant to an exploration and evaluation asset agreement.
- completed a non-brokered private placement and issued 3,100,000 flow through units and 5,140,000 non-flow-through units a price of $0.10 per unit, for gross proceeds of $824,000. Each flow through unit consisted of one common share and one half share purchase warrant exercisable at a price of $0.15 per share expiring on April 13, 2012. Each non-flow through unit consisted of one common share and one whole share purchase warrant, exercisable at a price of $0.15 per share expiring on April 13, 2012.

## 10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd…)

- completed a non-brokered private placement and issued 2,200,000 flow through units and 9,800,000 non-flow-through units a price of $0.05 per unit, for gross proceeds of $600,000. Each flow through unit consisted of one common share and one whole share purchase warrant exercisable at a price of $0.15 per share expiring on September 30, 2013. Each non-flow through unit consisted of one common share and one whole share purchase warrant, exercisable at a price of $0.15 per share expiring on September 30, 2013.

**Stock options**

The Company has a stock option plan in place under which it is authorized to grant options to directors, senior officers, employees, management company employees, and consultants to acquire up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of five years. Vesting is determined by the Board of Directors.

As at December 31, 2012, the Company had stock options outstanding enabling the holder to acquire common shares as follows:

| Number of Shares | Exercise Price | Expiry Date | Weighted Average Life Remaining |
|---|---|---|---|
| 95,000 | 0.10 | January 6, 2013 (expired subsequent to year end) | 0.02 |
| 100,000 | 0.10 | June 13, 2013 | 0.45 |
| 75,000 | 0.10 | November 16, 2014 | 1.88 |
| 1,850,000 | 0.10 | February 17, 2016 | 3.13 |
| 3,460,000 | 0.10 | January 3, 2017 | 4.01 |
| 1,110,000 | 0.10 | September 26, 2017 | 4.74 |
| 6,690,000 | | | 3.75 |

Stock option transactions are summarized as follows:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| As at December 31, 2010 | 3,050,000 | $ 0.49 |
| Options granted | 2,200,000 | 0.10 |
| Options cancelled | (2,673,333) | 0.31 |
| As at December 31, 2011 | 2,576,667 | $ 0.35 |
| Options granted | 4,595,000 | 0.10 |
| Options cancelled/expired | (481,667) | 1.36 |
| As at December 31, 2012 | 6,690,000 | $ 0.11 |
| Number of options currently exercisable | 5,640,000 | $ 0.11 |

## 10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd…)

**Stock options**(cont'd…)
During the year ended December 31, 2012, the Company:
- extended 195,000 options issued to former directors, exercisable at a price of $0.10, to expire one year from the date they ceased to be directors;
- re-priced 245,000 options exercisable at a prices between $0.57-$1.52 to $0.10; and
- granted4,595,000 (2011 - 2,200,000) stock options with a fair value of $249,838 (2011 - $188,480) or $0.05 (2011 - $0.09) per option, calculated using the Black-Scholes option pricing model. Vesting is as follows:
  - 3,195,000 vested immediately;
  - 200,000 granted to a new director vested 50% on the date of grant and 50% January 3, 2013;
  - 1,000,000 granted to directors vested 20% immediately and 20% every year thereafter;and
  - 200,000 options granted to investor relation consultants which vest 25% three months after grant and a further 25% every three months thereafter.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year ended December 31:

| | 2012 | 2011 |
|---|---|---|
| Risk-free interest rate | 1.31% | 2.77% |
| Expected life of options | 4.99 | 5.00 |
| Annualized volatility | 111% | 119% |
| Dividend rate | - | - |

**Warrants**
As at December 31, 2012, the Company had share purchase warrants outstanding enabling the holders to acquire common shares as follows:

| Numberof Shares | ExercisePrice | Expiry Date | Weighted AverageLife Remaining |
|---|---|---|---|
| 12,000,000 | $0.15 | September 30, 2013 | 0.75 |
| 6,280,000 | 0.15 | April 16, 2014 | 1.29 |
| 18,280,000 | | | |

Warrant transactions are summarized as follows:

| | Numberof Warrants | WeightedAverageExercisePrice |
|---|---|---|
| As at December 31, 2010 | 2,857,143 | $ 0.15 |
| Warrants issued | 18,690,000 | 0.15 |
| Warrants expired | (2,857,143) | 0.15 |
| As at December 31, 2011 | 18,690,000 | $ 0.15 |
| Warrants issued | 6,280,000 | 0.15 |
| Warrants expired | (6,690,000) | - |
| As at December 31, 2012 | 18,280,000 | $ 0.15 |

The options and warrants were not dilutive during fiscal 2012 and 2011 and therefore, had no effect on diluted

earnings per share for the years ended December 31, 2012 and 2011.

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the year ended December 31, 2012 consist of the following:
- ofthe issuance of 280,000 units, valued at $21,000, for finders' fees on a private placement; and
- the accrual of $47,270 of exploration and evaluation assets in accounts payable and accrued liabilities.

The significant non-cash transactions during the year ended December 31, 2011 consist of the following:
- the issuance of 1,200,000 common shares at a value of $118,500 pursuant to exploration and evaluation asset acquisitions;
- receipt of 100,000 shares of Ocean Park Ventures Corp. at a value of $45,000; and
- the accrual of $10,317 of exploration and evaluation assets in accounts payable and accrued liabilities.

## 12. RECOVERY FROM PROPERTY SETTLEMENT

During fiscal 2007, the Company acquired an option, subsequently amended, for the acquisition of up to a 49% interest in a company that held a coal license located in Mongolia, referred to as the Erdenetsogt project.

During fiscal 2008, the Company initiated civil proceedings against the vendor of the Erdenetsogt property, alleging that the vendor did not comply with the terms of the purchase agreement by selling 100% of the company holding title to the property to another party (the "Acquiring Party"). Additionally, the Company initiated arbitration proceedings against the Acquiring Party alleging violation of the Company's agreement to acquire a 49% interest in the company holding title to the property.

During fiscal 2009, the Company won its civil proceedings and received shares representing 5% of ECM LLC ("ECM") the Mongolian company which owns the exploration License to the Erdenetsogt coal project ("Erdenetsogt"). The Company filed a writ, in Mongolia, seeking to rescind the transfer of shares of ECM to the Acquiring Party. The Company contended as the holder of a 5% interest in ECM it held the right of first refusal on any offer of sale, and that the vendor breached this right. Under the writ, the Company was seeking to have 95% of ECM currently held by the Acquiring Party returned to Mongolia and offered to the Company.

During fiscal 2010, the Company signed a SPA with Mangreat Group Ltd. ("Mangreat"), the majority owner of ECM providing for the sale of the Company's 5% interest in ECM. Under the terms of the settlement, the Company received US$500,000 in fiscal 2010 and received US$1,500,000 in fiscal 2011. The Company transferred its 5% interest in ECM and has terminated its litigation in Mongolia. If the property is sold or joint ventured to a third party for a value greater than US$40,000,000 the Company will receive an additional US$1,000,000. Under the SPA the parties have also agreed to abandon all litigation over the property and the license.

The Company incurred costs during fiscal 2011 of $4,729 in connection with the litigation and all such costs have been expensed.

## 13. SEGMENTED INFORMATION

As at December 31, 2012, the Company has operating segments in both Canada and USA:

| | | December 31 2012 | | December 31 2011 |
|---|---|---|---|---|
| Equipment | | | | |
| Canada | $ | 10,510 | $ | 1,415 |
| USA | | - | | - |
| | $ | 10,510 | $ | 1,415 |
| Exploration and evaluation assets | | | | |
| Canada | $ | - | $ | 552,268 |
| USA | | 519,548 | | 154,423 |
| | $ | 519,548 | $ | 706,691 |

## 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

The fair value of cash and marketable securities are measured at Level 1 of the fair value hierarchy. The carrying value of receivables, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

### Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*
Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote and has deposited cash in high credit quality financial institutions.

## 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT(cont'd…)

*Liquidity risk*
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of December 31, 2012 the Company had cash balance of $297,332 (2011 - $1,654,511) to settle current liabilities of $178,390 (2011 - $213,959). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

*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. Amounts exposed to market risk include marketable securities of $5,000 (2011 - $22,000).

*Interest rate risk*
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade demand investments issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

*Foreign currency risk*
The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in US Dollars. Amounts exposed to foreign currency risk include cash of US$561as of December 31, 2012 (2011 -US$10,266).

*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 profit or loss 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 profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

## 15. CAPITAL MANAGEMENT

The Company defines capital that it manages as shareholders' equity, consisting of issued common shares, stock options and warrants.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. 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 business.

The property in which the Company currently has an interest is in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions.

## 16. INCOME TAXES

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

| | 2012 | 2011 |
|---|---|---|
| Net income (loss) before income taxes | $ (2,128,790) | $ 810,419 |
| Expected income tax (recovery) | $ (532,000) | $ 215,000 |
| Change in statutory, foreign tax, foreign exchange rates and other | 5,000 | (15,000) |
| Permanent Difference | 63,000 | (50,000) |
| Impact of flow through share | 81,000 | 36,0000 |
| Share issue cost | (13,000) | (33,000) |
| Change in unrecognized deductible temporary differences | 396,000 | (253,000) |
| Total income tax expense (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 nature and tax effect of the temporary differences and tax loss carry-forwards giving rise to unrecorded deferred tax assets and liabilities at December 31, 2012 and 2011 are summarized as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Deferred tax assets | | |
| Capital losses | $ 144,000 | $ 144,000 |
| Equipment | 1,000 | 1,000 |
| Exploration and evaluation assets | 1,409,000 | 1,262,000 |
| Marketable Securities | 5,000 | 3,000 |
| Non-capital loss carry-forwards | 1,507,000 | 1,254,000 |
| Share issue costs | 40,000 | 46,000 |
| Unrecognized tax assets | $ 3,106,000 | $ 2,710,000 |

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

The Company has non-capital losses of approximately $6,029,000 available to offset against taxable income in future years, which if unutilized will expire from 2014 through to 2032. Subject to certain restrictions, the Company also has resource exploration expenditures of approximately $5,636,000 available to offset taxable income in future years. The Company also has share issue costs of $159,000 available to offset against taxable income in future years, which if unutilized, will expire from 2033 to 2036. Deferred tax benefits that may arise as a result of these losses, resource deductions and other taxassets have not been recognized in these financial statements due to a lack of probability of their realization.

The Company fulfilled its obligation to incur exploration expenditures in relation to the prior year flow-through financings.

## 17. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2012, 945,000 share purchase options, exercisable at a price of $0.10, expired. This included options whose expiry date was modified subsequent to year end for consultants and directors who resigned or were terminated.