Financial Statements of

VIKING GOLD EXPLORATION INC.

For the Years Ended December 31, 2012 and 2011

VIKING GOLD EXPLORATION INC.

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Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Viking Gold Exploration Inc.

We have audited the accompanying financial statements of Viking Gold Exploration Inc, which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of loss and comprehensive loss, statements of cash flows and statement of changes in 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.

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Viking Gold Exploration Inc. as at December 31, 2012 and 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 financial statements which indicates that the Company had continuing losses during the year ended December 31, 2012 and a cumulative deficit as at December 31, 2012. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 29, 2013

VIKING GOLD EXPLORATION INC.

STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31
(Expressed in Canadian dollars)

	Notes	2012	2011
ASSETS			
Non-current assets			
Exploration and evaluation assets	3	$ 2,361,838	$ 1,483,882
Equipment	4	1,483	7,291
Investments	5	8,000	9,750
Total non-current assets		2,371,321	1,500,923
Current assets			
Amounts receivable and prepaid expenses	6,10	111,848	103,287
Cash and cash equivalents	13	500,124	1,008,105
Total current assets		611,972	1,111,392
Total Assets		$ 2,983,293	$ 2,612,315
EQUITY AND LIABILITIES			
Equity			
Share capital	7	$ 9,043,120	$ 8,383,653
Equity-settled employee benefit reserve		873,720	911,055
Deficit		(7,586,074)	(7,229,646)
Total equity		2,330,766	2,065,062
Current liabilities			
Liability for flow-through share premium	7c	69,000	-
Trade and other payables	9,10	583,527	547,253
Total current liabilities		652,527	547,253
Total Equity and Liabilities		$ 2,983,293	$ 2,612,315

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 3 and 11)

The Board of Directors approved these financial statements on April 29, 2013.
They are signed on behalf of the Board by:

/s/Mark Edwards
Director

/s/John Hansuld
Director

See accompanying notes to the financial statements.

VIKING GOLD EXPLORATION INC.

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Expressed in Canadian dollars)

	Notes	2012	2011
Expenses			
Management fees	10	$ 160,733	$ 158,284
Share-based compensation	10	10,000	566,000
Professional and regulatory fees	10	110,332	118,167
Office and administration	10	94,445	76,363
Depreciation	4	1,600	2,396
Claims management		3,012	3,013
Investigation of new properties	3e	44,539	7,764
Total expenses		424,661	931,987
Operating loss		(424,661)	(931,987)
Other income (expense)			
Interest income		1,680	4,999
Part XII.6 tax recovery (expense)		11,176	(65,124)
Loss on disposal of equipment	4	(4,208)	(3,233)
Unrealized loss on investment	5a	(3,500)	-
Gain on sale of investment	5b	18,750	-
Write-down of exploration and evaluation assets	3	-	(3,635,489)
Total other income (expense)		23,898	(3,698,847)
Loss before income taxes		(400,763)	(4,630,834)
Deferred tax expense (recovery)	8	20,000	(377,049)
Net loss and comprehensive loss, attributable to common shareholders		$ (420,763)	$ (4,253,785)
Basic and diluted loss per common share		$ (0.006)	$ (0.067)
Weighted-average number of common shares			
Basic		71,246,178	63,316,385
Diluted	7f	71,246,178	63,316,385

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Expressed in Canadian dollars)

	2012	2011
Operating activities		
Net loss	$ (420,763)	$ (4,253,785)
Adjusted for		
Share-based compensation	10,000	566,000
Depreciation	1,600	2,396
Other (income) expense	(23,898)	3,698,847
Deferred tax expense (recovery)	20,000	(377,049)
	(413,061)	(363,591)
Changes in non-cash working capital items		
(Increase) in amounts receivable and prepaid expenses	(8,561)	(59,242)
Increase in trade and other payables, net of items (i)(iv)(v) below	8,930	4,853
Net cash used in operating activities	(412,692)	(417,980)
Investing activities		
Interest income	1,680	4,999
Additions to exploration and evaluation assets, net of items (i)(ii)(iii) below	(796,261)	(785,432)
Purchase of equipment	-	(1,859)
Proceeds on sale of investment	20,000	-
Net cash used in investing activities	(774,581)	(782,292)
Financing activities		
Part XII.6 tax, net of item (iv) below	(11,925)	-
Issuance of private placement units	758,600	1,048,750
Issue costs of private placement units, net of items (v)(vi) below	(76,183)	(115,840)
Exercise of warrants	8,800	109,200
Exercise of options	-	66,750
Net cash provided by financing activities	679,292	1,108,860
Net (decrease) in cash and cash equivalents	(507,981)	(91,412)
Cash and cash equivalents, beginning of year	1,008,105	1,099,517
Cash and cash equivalents, end of year (Note 13)	$ 500,124	$ 1,008,105

Additional information:		
(i) Increase in accrued E&E expenditures	$ 50,445	$ 397,835
(ii) Common shares issued to acquire E&E assets	34,250	333,000
(iii) Non-cash option payment received	(3,000)	(8,500)
(iv) (Decrease) increase in accrued Part XII.6 tax costs	(23,101)	65,124
(v) (Decrease) in accrued issue costs of private placements	-	(17,471)
(vi) Value of other warrants issued	(17,000)	(62,000)

See accompanying notes to the financial statements.

VIKING GOLD EXPLORATION INC.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Expressed in Canadian dollars)

	Notes	# of Issued and fully paid common shares	Share capital	Equity-settled employee benefit reserve	Deficit	Total equity
Balance – January 1, 2011		60,856,702	$ 6,915,669	$ 398,175	$ (3,042,328)	$ 4,271,516
Proceeds from private placement						
Non-flow-through shares	7c	1,747,917	262,187	-	-	262,187
Flow-through shares	7c	5,243,750	786,563	-	-	786,563
Shares issued to acquire exploration and evaluation assets	3d	1,650,000	333,000	-	-	333,000
Issue costs	7c	-	(98,369)	-	-	(98,369)
Issue costs – deferred tax	8	-	22,000	-	-	22,000
Other warrants issued	7d	-	(62,000)	-	62,000	-
Exercise of warrants	7d	546,000	109,200	-	-	109,200
Exercise of options	7e	525,000	66,750	-	-	66,750
Value of options transferred on exercise	7e	-	48,653	(48,653)	-	-
Comprehensive loss for year		-	-	-	(4,253,785)	(4,253,785)
Share-based compensation	7e, 10	-	-	566,000	-	566,000
Options expired	7e	-	-	(4,467)	4,467	-
Net change for the year		9,712,667	1,467,984	512,880	(4,187,318)	(2,206,454)
Balance – December 31, 2011		70,569,369	8,383,653	911,055	(7,229,646)	2,065,062
Proceeds from private placement						
Non-flow-through shares	7c	1,681,000	191,720	-	-	191,720
Flow-through shares	7c	4,724,000	566,880	-	-	566,880
Allocated to flow-through share premium	7c	-	(69,000)	-	-	(69,000)
Shares issued to acquire exploration and evaluation assets	3d	300,000	34,250	-	-	34,250
Issue costs	7c	-	(76,183)	-	-	(76,183)
Issue costs – deferred tax	8	-	20,000	-	-	20,000
Other warrants issued	7d	-	(17,000)	-	17,000	-
Exercise of warrants	7d	110,000	8,800	-	-	8,800
Comprehensive loss for year		-	-	-	(420,763)	(420,763)
Share-based compensation	7e, 10	-	-	10,000	-	10,000
Options expired	7e	-	-	(47,335)	47,335	-
Net change for the year		6,815,000	659,467	(37,335)	(356,428)	265,704
Balance – December 31, 2012		77,384,369	$ 9,043,120	$ 873,720	$ (7,586,074)	$ 2,330,766

See accompanying notes to the financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Viking Gold Exploration Inc. (the "Company") is a Canadian mineral exploration company with interests in projects located in Ontario, Quebec and the Northwest Territories. The Company's shares are publicly traded on the TSX Venture Exchange ("TSX-V") under the trading symbol "VGC". The Company currently has no subsidiaries.

The Company's exploration projects are described in Note 3. There has been no determination whether the Company's properties contain mineral reserves that are economically recoverable. Since its reorganization in 2004, the Company has not earned significant revenue and is considered to be an exploration stage entity.

During the year ended December 31, 2012, the Company had an annual operating loss of $420,763 and an accumulated deficit of $7,586,074 as at December 31, 2012, and it has not generated positive cash flow from operations. As at December 31, 2012, the Company also had a working capital deficiency of $40,555 and an estimated flow-through expenditure obligation of approximately $560,000. Accordingly, continuing operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management believes that sufficient working capital will be obtained from external financing to meet the Company's current and future liabilities and commitments as they become due, though there is a significant risk that additional financing may not be available on a timely basis or on terms acceptable to the Company.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. Such adjustments could be material. As a result of the financial matters discussed in the preceding paragraph, there is significant doubt regarding the ultimate applicability of the Company's going concern assumption.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

The address of the Company's registered office is #2B – 2900 John Street, Markham, Ontario, Canada, L3R 5G3.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") effective for the Company's current year ended December 31, 2012, as issued and outstanding as of the date of the Board of Director's approval. The accounting policies have been applied consistently to all periods presented in these financial statements.

b) Basis of Measurement

These financial statements are prepared on the historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements are prepared using the accrual basis of accounting except for cash flow information. The Company uses the Canadian dollar for both its functional and presentation currencies.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Use of Judgments, Estimates and Assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The estimates and underlying assumptions are based on historical experience and other factors believed to be reasonable under the circumstances. Accounting estimates are reviewed on an ongoing basis and revisions are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant items in these financial statements that involve the use of estimates include the following items: the valuation of exploration and evaluation assets (Note 2e); share-based compensation (Note 2m); decommissioning, restoration and similar obligations (Note 2h); and the valuation of deferred income tax assets (Note 2j). Each of these referenced notes provides insight into key factors management considers in formulating its estimates.

d) Financial Instruments

Financial instruments consist of financial assets and liabilities and are initially measured at fair value. The accounting policies for financial instruments are described below and the composition of the period-end financial instruments and related risks are disclosed in Note 13.

Financial Assets

The Company classifies each financial asset into one of four categories depending on the purpose for which the asset was acquired.

(i) Financial Assets at Fair Value Through Profit or Loss (“FVTPL”)

Assets in this category are derivatives or other assets held for trading (i.e. acquired or incurred principally for the purpose of selling or repurchasing in the near term) or designated as FVTPL upon initial recognition. After initial recognition, such assets are measured at fair value with changes therein being recognized in profit or loss. The Company has no derivative financial instruments. The Company’s cash equivalents, which consist of guaranteed investment certificates cashable at any time, and an investment (see Note 5) are classified as FVTPL.

(ii) Available For Sale (“AFS”)

Assets in this category are non-derivative financial assets that are either designated as available for sale or do not fit into one of the other categories. After initial recognition, AFS assets are measured at fair value with changes therein (excluding those attributable to impairment) being recognized directly in other comprehensive income (loss). The Company has no AFS assets.

(iii) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. For loans and receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss. The Company has cash and amounts receivables, which are classified as loans and receivables.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial Instruments (Continued)

Financial Assets (Continued)

(iv) Held to Maturity

Assets in this category are financial assets with known payments and a fixed maturity date. In addition, the Company has the positive intention and ability to hold the financial asset to maturity, other than those initially designated as held for trading, available for sale, or loans and receivables as explained above. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method. The Company has no held-to-maturity financial assets.

Unquoted Equity Instruments

Unquoted equity instruments, the fair value of which cannot be reliably measured, are carried at cost less estimated impairment losses. Impairment losses for these assets may not be reversed. As at December 31, 2011, the Company had an investment in this category (see Note 5). This asset was sold in 2012.

Financial Liabilities

The Company classifies each financial liability into one of two categories depending on the purpose for which the liability was incurred.

(i) Financial Liabilities at FVTPL

Liabilities in this category are derivatives or liabilities classified as held for trading or designated as FVTPL upon initial recognition. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Company has no held-for-trading financial liabilities.

(ii) Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as held for trading. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The Company has trade and other payables, which are classified as other financial liabilities. The Company's liability for flow-through share premium is considered to be a deferred credit and not a financial liability.

Transaction Costs

For FVTPL financial assets and liabilities, transaction costs, on initial recognition and thereafter, are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate, i.e. amortized through profit or loss over the term of the related instrument.

Fair Value Hierarchy

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 included within Level 1 that are observable for the asset or liability either directly or indirectly (e.g. broker quotes); and
Level 3 – Inputs for assets or liabilities that are not based on observable market data.

Financial assets and liabilities are recognized in the Statement of Financial Position when the Company has become party to the contractual provision of the instruments.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Mineral Properties

The Company's accounting policies for mineral property interests are as follows:

Pre-exploration Phase

Prospecting and other pre-exploration expenditures incurred before the Company has the legal right to explore a mineral property are charged to profit or loss as incurred.

Exploration and Evaluation ("E&E") Phase

Acquisition costs and deferred exploration expenditures are capitalized to intangible assets. Acquisition costs are the costs of acquiring legal rights to explore a mineral property. Deferred exploration expenditures are exploration and evaluation expenditures incurred after the Company has secured the legal rights to explore.

Acquisition costs include cash consideration paid and the fair market value of shares issued by the Company. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. Deferred exploration expenditures include such items as drilling and camps, transportation, technical studies, assays, consulting fees and property-specific general and administrative expenses. Amounts recovered and administrative fees earned from exploration partners are applied as a reduction of the cost of the related mineral property interest.

The Company assesses its individual exploration and evaluation properties for impairment when facts and circumstances indicate that the carrying amount may not be recoverable. The expiry of rights to explore, the cessation of planned exploration activities, and the indication of mineral reserves that are insufficient to recover the capitalized costs are important factors the Company considers in identifying impairment. When an impairment situation is identified, a write-down of the related intangible asset is charged to profit or loss. The Company's write-downs of E&E assets in 2011 due to impairment are reported in Note 3.

The Company currently has six active properties in the E&E phase.

Development and Production Phase

When the technical feasibility and commercial viability of extraction of an exploration property are determined, the related intangible assets are transferred to property, plant and equipment. Development costs incurred thereafter to bring an actual mine into production are capitalized to property, plant and equipment. Once commercial production has commenced, the net costs of the applicable mineral property are charged to profit or loss using the unit-of-production method based on estimated recoverable reserves. Production costs for the period are allocated to inventory and profit or loss as appropriate. The Company's accounting policy for impairment of mineral property interests under development and in production is described in Note 2g, Impairment. The Company currently has no mineral properties in the development and production phase.

f) Equipment

Items of equipment are recorded at cost less accumulated depreciation and impairment losses. The Company recognizes, in the carrying amount of an item of equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are charged to profit or loss as incurred. Depreciation of equipment is provided on a declining-balance basis over the estimated useful lives at the following annual rates – vehicles 30%; field and office equipment 20%.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Impairment

The carrying amounts of the Company's non-current assets, except exploration and evaluation assets which are tested for impairment consistent with the policy disclosed in Note 2e, are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated. An impairment loss is charged to profit or loss whenever the carrying amount of an asset (or its cash-generating unit) exceeds its recoverable amount. An asset's recoverable amount is the greater of its fair value less costs to sell and its value-in-use (calculated as the present value of expected future cash flows). Impairment losses may be reversed (other than for goodwill) if there has been a change in the estimates used to determine the recoverable amount.

h) Decommissioning, Restoration and Similar Obligations

Obligations to perform, or fund, site decommissioning, restoration or other rehabilitative work arise when a disturbance to a mineral property is caused by exploration, development or production. The costs associated with these obligations are capitalized to the asset's carrying value and accrued as liabilities as incurred, using a current pre-tax risk-free interest rate and based on management's assumptions and best estimates. Capitalized costs are charged to profit or loss over the economic life of the related asset using the unit-of-production method of amortization. The related liability is adjusted each period for changes in the current pre-tax risk-free interest rate, and the amount and timing of the underlying cash flows needed to settle the obligation. The increase in provisions for decommissioning, restoration and similar obligations due to the passage of time, is charged to profit or loss as a finance cost. The Company is not aware of any existing material decommissioning, restoration or similar obligations as the disturbance to mineral properties through exploration to date is minimal, and adequate provisions/payments have been previously recorded.

i) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. The Company does not invest in any asset-backed deposits or investments. The Company has no banking arrangements for overdrafts or borrowings.

j) Income Taxes

Income tax expense (recovery) included in profit or loss is the sum of current and deferred tax as explained below.

Current Tax

Current tax is the expected income tax payable (recoverable) on the taxable income (loss) for the period, using tax rates enacted, or substantively enacted, as at the reporting date. Current tax expense (recovery) included in profit or loss reflects the current tax for the reporting period, plus adjustments to the current tax of prior periods, less current tax recorded directly in other comprehensive income (loss) or equity.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences and unused tax losses and tax credits can be utilized. Deferred tax is calculated on a non-discounted basis, using tax rates enacted, or substantively enacted, as at the reporting date. The carrying amounts of individual deferred tax assets are reviewed at the reporting date but are only recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Income Taxes (Continued)

Deferred Tax (Continued)

The deferred tax (recovery) expense included in profit or loss reflects the net change in deferred tax assets and liabilities, less deferred tax recorded directly in other comprehensive income (loss) or equity, less adjustments for flow-through premiums as further explained in Note 2l.

In assessing the probability that a potential deferred tax asset will be recovered, management makes estimates as to the Company's future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences, and the likelihood that tax positions taken by the Company will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

k) Share Capital and Common Share Purchase Warrants

The Company's common shares are classified as equity and may be issued on either a flow-through or non-flow-through basis. Certain unique aspects of flow-through shares are discussed in greater detail in Note 2l.

The Company periodically issues units to investors consisting of common shares and common share purchase warrants in private placements. Each whole warrant issued entitles the holder to acquire a common share of the Company at a fixed Canadian dollar price over a specified term. These warrants are not transferable from the original investor to a new investor. The Company's investor warrants are equity instruments and not financial liabilities or financial derivatives. Accordingly, gross investor proceeds received from the issuance of units are accounted for as an increase in share capital. No separate valuation (i.e. "bifurcation") of investor warrants is made for accounting purposes at the time of issuance or at any time thereafter.

Transaction costs directly attributable to the issuance of units (such as legal, finders' and regulatory fees) are recognized as a decrease in share capital net of related income tax effects. Other warrants (e.g. broker warrants issued in a private placement) are also included in transaction costs at their estimated issue date fair value as determined using the Black-Scholes option-pricing model. An offsetting credit is recorded in equity as a reduction of deficit.

When investor or other warrants are exercised, the proceeds received are added to share capital. When investor or other warrants expire unexercised, no accounting entry is recorded.

The Company makes full and relevant disclosure of outstanding investor and other warrants in its financial statements, so that readers can assess the impact of potential future warrant exercises on the Company's cash flows and outstanding shares.

Management makes assumptions and judgments in applying the Black-Scholes option-pricing model as a market-based valuation technique. These assumptions and judgments include estimating the future volatility of the stock price, the expected dividend yield, and the risk-free interest rate. Such assumptions and judgments are inherently uncertain. Changes in these assumptions affect the fair value estimates.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Flow-through Shares

The Company finances its exploration activities through the issuance of flow-through common shares. These shares transfer the tax deductibility of resource expenditures to investors. While IFRS contains no specific guidance on accounting for flow-through shares, the Company has chosen to adopt the accounting policy described below.

At the time of issuing flow-through shares, the Company allocates the proceeds of issuance to share capital and the sale of tax benefits. The allocation to tax benefits is recorded as a liability and is based on the estimated premium, if any, an investor pays for the common shares over the value of the shares issued based on the quoted price.

As qualifying exploration expenditures are made in each reporting period, the Company capitalizes these costs to intangible assets as explained in Note 2e. If the Company intends to formally renounce these expenditures to investors under an existing flow-through agreement (whether using the "General Rule" or "Look-back Rule" as permitted under Canadian income tax regulations), it earmarks them as "effectively renounced" as at the end of the reporting period, and records a related deferred tax expense/liability net of a proportionate amount of any related share issue premium. At the end of each reporting period, the Company discloses its outstanding flow-through expenditure commitment (see Note 11a).

m) Share-based Payments

The Company's accounting policies for share-based payments are outlined below.

Employees

The term "employees" as used in these financial statements includes all officers, directors and others, including persons providing services that are similar to those provided by employees, e.g. consultants.

Equity-settled Transactions

An equity-settled transaction occurs when the Company enters into an agreement to acquire goods or services in exchange for its shares or other equity instruments. Such transactions are recorded at the fair value of the goods or services received. When shares or other securities are issued to compensate key employees, the fair value is determined using the market value of the securities issued. When employees purchase shares or other securities on the same terms as non-employee investors, such transactions are not treated as share-based payments. Instead, see Note 2k and Note 2l.

Common share purchase options ("options") are granted to key employees as performance incentives. The fair value of options granted is determined using the Black-Scholes option-pricing model. This amount is recognized as a compensation expense in profit or loss at time of vesting with offsetting credits recorded to an equity-settled employee benefit reserve. When options are exercised, a transfer is made from the reserve to share capital and added to the proceeds of issuance. When options expire or are forfeited, a transfer is made from the reserve to deficit. Accordingly, the balance of the reserve at each reporting date reflects the Company's unexpired/unexercised vested options.

The Company's stock option plan is described in Note 7e, Share Capital – Common Share Purchase Options. A summary of compensation expense for options granted is presented in Note 10, Related Party Transactions. The Company's accounting policies for share-based payments made to acquire mineral property interests or to compensate brokers are discussed in Notes 2e, Mineral Properties and 2k, Share Capital and Common Share Purchase Warrants.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Share-based Payments (Continued)

Cash-settled Transactions

A cash-settled transaction occurs when the Company enters into an agreement in which it incurs a liability linked to the Company's share price. Such transactions are recorded at the grant date but are subsequently re-measured to fair value in each period, until the liability is settled. The Company has not entered into any cash-settled transactions.

n) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated in a similar manner, but with adjustments to give full effect to all dilutive potential common shares that were outstanding during the period. Anti-dilutive effects of potential conversions of securities are ignored for this calculation. Out-of-the-money warrants and options are considered to be anti-dilutive.

o) Mineral Property Agreements With Other Parties

A portion of the Company's activities is conducted jointly with other parties wherein the Company enters into agreements that provide for specified percentage interests in mineral properties. Once the parties have earned their respective interests and undertake to conduct further acquisition, exploration or development through a joint venture or other legal arrangement, the Company determines the proper accounting treatment for its continued interest in the mineral property.

Where the property is subject to the shared joint control of the parties, the Company discloses this relationship as "a joint venture" and applies proportionate consolidation accounting. Under this method of accounting, the Company's share of assets, liabilities, revenue and expenses are grouped with similar items in the Company's financial statements. Where shared joint control is not present, the Company discloses this relationship as being one of "undivided working interests" and instead recognizes its assets, liabilities, revenue and expenses and/or its relative shares thereof related to the property. In either case, costs incurred during earn-in periods remain capitalized and are added to amounts recorded under the new arrangement, subject to any overriding impairment tests. The Company currently has no joint venture interests and one active undivided working interest.

Continued…

(Unaudited – expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) New IFRS Standards Not Yet Adopted

The Company has not yet adopted certain new IFRS standards, amendments and interpretations to existing standards, which have been published but are only effective for the Company's accounting periods beginning on or after January 1, 2013. These include:

New IFRS standards	Description	Effective date
• Amendments to IFRS 7 – Disclosures of Offsetting Financial Assets and Liabilities, and related amendments to IAS 32 (issued December 2011)	The standards were amended to improve offsetting rules and related disclosures for financial instruments.	January 1, 2013, and January 1, 2014
• IFRS 9 – Financial Instruments (issued November 2009 and revised October 2010)	The existing standard was expanded in 2010 to include guidance on the classification and measurement of financial liabilities.	January 1, 2015 (extended from January 1, 2013)
• IFRS 10 – Consolidated Financial Statements (issued May 2011)	The standard provides a new definition of control, which is intended to provide more consistent guidance in the determination of whether control exists to justify consolidation of investees.	January 1, 2013
• IFRS 11 – Joint Arrangements (issued May 2011)	The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.	January 1, 2013
• IFRS 12 – Disclosure of Interests in Other Entities (issued May 2011)	The standard sets out disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off statement of financial position vehicles.	January 1, 2013
• IFRS 13 – Fair Value Measurement (issued May 2011)	The standard provides guidance on measuring fair value when required by other IFRS's.	January 1, 2013
• Amendments to IAS 1 – Presentation of Financial Statements (issued June 2011)	The standard was amended to align the presentation of items in other comprehensive income with U.S. standards.	July 1, 2012
• Amendments to IAS 27 – Separate Financial Statements (issued May 2011)	The standard addresses accounting and disclosure for investments in subsidiaries, joint ventures and associates in separate financial statements.	January 1, 2013
• Amendments to IAS 28 – Investments in Associates and Joint Ventures (issued May 2011)	The standard establishes accounting principles for investments in associates under significant influence. It sets out the equity method of accounting for investments in associates and joint ventures.	January 1, 2013

Continued…

(Unaudited – expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) New IFRS Standards Not Yet Adopted (Continued)

These ten new IFRS standards apply to annual periods beginning on or after the stated effective date. Early adoption is available, however, if an entity early adopts any of IFRS 10, 11, 12, or amendments to IAS27/28, it must adopt all five of these standards at the same time. Management does not anticipate a significant impact on the Company's financial reporting from the adoption of these new standards.

3. EXPLORATION AND EVALUATION ASSETS

During the year ended December 31, 2012, the Company acquired 1 mineral property interest in Quebec. In 2011, the Company acquired 5 mineral property interests, 2 in Ontario (ON) and 3 in Quebec (QC). These 6 active properties are either currently being explored or will be explored in the future.

Below is a summary of the Company's 6 active properties.

Properties	Year Acquired	Notes	Current Mineral Tenure (all 100% owned unless otherwise indicated)	# of Claims/ Leases *
Venton Lake, ON	2011	3a	Claims	13
Larose, ON	2011	3b	Claims, under option by the Company to a third party which may earn up to a 50% interest	16
Total ON				29
Verneuil, QC				
Verneuil Central	2011	3b	Claims; 70% undivided working interest **	22
Verneuil West	2011	3b	Claims	20
Verneuil East	2011	3b	Claims	9
				51
Guyenne, QC	2012	3c	Claims, under option to the Company which may earn up to a 50% interest	7
Total QC				58
Total				87

* The claim quantities for the QC properties have been updated, where necessary, to reflect the conversion in 2012 from "ground staking" to "map staking".

** Prior to December 31, 2011, the mineral tenure was disclosed as a joint venture; it is now disclosed as an undivided working interest.

In 2011, the Company recorded write-downs totaling $3,635,489 in respect of its 6 inactive Morris Lake properties. A full description of these properties can be found in the Company's annual audited IFRS financial statements for 2011.

Continued…

(Unaudited – expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS (Continued)

A continuity schedule of the Company's exploration and evaluation (E&E) assets for the years ended December 31, 2011 and 2012 follows. Additional information about the Company's active properties is presented thereafter.

	Balance, January 1, 2011	Expenditures for 2011	Write-downs for 2011	Balance, December 31, 2011	Expenditures for 2012	Balance, December 31, 2012
Acquisition costs (See Note 3d)						
Venton Lake, ON	$ -	$ 112,536	$ -	$ 112,536	$ 79,250	$ 191,786
Larose, ON	-	93,028	-	93,028	7,000	100,028
Verneuil, QC						
Verneuil Central	-	137,372	-	137,372	-	137,372
Verneuil West	-	93,926	-	93,926	-	93,926
Verneuil East	-	65,615	-	65,615	-	65,615
Guyenne, QC	-	-	-	-	62,675	62,675
Active properties	-	502,477	-	502,477	148,925	651,402
Inactive properties						
Morris Lake, NT	180,803	-	(180,798)	5	-	5
Total properties	180,803	502,477	(180,798)	502,482	148,925	651,407
Deferred exploration expenditures						
Venton Lake, ON	-	-	-	-	85,654	85,654
Larose, ON	-	179	-	179	-	179
Verneuil, QC						
Verneuil Central	-	718,829	-	718,829	14,011	732,840
Verneuil West	-	164,214	-	164,214	247,735	411,949
Verneuil East	-	98,177	-	98,177	20,279	118,456
Guyenne, QC	-	-	-	-	361,352	361,352
Active properties	-	981,399	-	981,399	729,031	1,710,430
Inactive properties						
Morris Lake, NT	3,430,801	23,891	(3,454,691)	1	-	1
Total properties	3,430,801	1,005,290	(3,454,691)	981,400	729,031	1,710,431
Total expenditures						
Venton Lake, ON	-	112,536	-	112,536	164,904	277,440
Larose, ON	-	93,207	-	93,207	7,000	100,207
Verneuil, QC						
Verneuil Central	-	856,201	-	856,201	14,011	870,212
Verneuil West	-	258,140	-	258,140	247,735	505,875
Verneuil East	-	163,792	-	163,792	20,279	184,071
Guyenne, QC	-	-	-	-	424,027	424,027
Active properties	-	1,483,876	-	1,483,876	877,956	2,361,832
Inactive properties						
Morris Lake, NT	3,611,604	23,891	(3,635,489)	6	-	6
Total properties	$ 3,611,604	$ 1,507,767	$ (3,635,489)	$ 1,483,882	$ 877,956	$ 2,361,838

Continued…

3. EXPLORATION AND EVALUATION ASSETS (Continued)

a) Venton Lake

On April 12, 2011, the Company signed a letter agreement in which it was granted an option to earn a 100% undivided interest in 13 mining claims located near Thunder Bay, Ontario known as "Venton Lake". The agreement provides that the Company (as optionee) will earn a 100% interest in the property by making an initial $75,000 cash payment followed by three additional annual cash payments of $75,000 each from the "Effective Date" (of the transaction) which is defined as the date the TSX-V approves the transaction plus 10 days. Each respective cash payment is also to be accompanied by the issuance of the Company's common shares to the optionor, as follows – 150,000 shares (initial – completed), 50,000 shares (after the first year – completed), 50,000 shares (after the second year) and 100,000 shares (after the third year), for a total of 350,000 shares.

Upon the exercise of the option, the optionor will retain a 2.5% net smelter return royalty ("NSR") on output from the properties following the commencement of commercial production. For the period commencing on the date that is 60 months following the Effective Date and ending on the commencement of commercial production, the Company is required to pay an advance minimum royalty of $15,000 per year to the optionor within 30 days of the start of each year, which aggregate amounts shall be deducted from the subsequent 2.5% NSR payments. The Company may buy back up to one-fifth of the 2.5% NSR at a price of $500,000, for a period of 20 years from the Effective Date. The Company may abandon the option granted to it by giving 30 days notice prior to abandonment, provided that the mineral rights will be in good standing for at least six months following the date of abandonment.

The TSX-V approved the Venton Lake transaction on April 26, 2011 and the transaction closed on September 19, 2011.

On April 26, 2012, the Company issued 50,000 common shares as a share-based option payment for the Venton Lake property. The fair value of the shares issued was $4,250. On May 24, 2012, the Company also paid $30,000 towards its first annual $75,000 cash option payment, and was granted an extension by the optionor to pay the $45,000 balance by August 31, 2012. On August 27, 2012, the Company completed the necessary payment.

b) Verneuil and Larose

On May 10, 2011, the Company signed a property sale agreement with Freewest Resources Canada Inc. ("Freewest"), a wholly owned subsidiary of Cliffs Natural Resources Inc. (NYSE: CLF), in which it agreed to acquire a 70% undivided working interest in the Verneuil property ("Verneuil Central") and a 100% undivided interest in the Larose property ("Larose"), in exchange for a combined share-based payment of 1,000,000 common shares (valued at the $200,000 fair value of the shares issued) and a 0.5% NSR on each property.

Verneuil Central is comprised of 22 claims in Verneuil Township in the Abitibi region of Quebec. The other 30% interest in Verneuil Central is held by Golden Tag Resources Ltd. ("Golden Tag"). Larose is comprised of 16 claims in Moss Township in Northwestern Ontario. Verneuil Central is subject to an existing 1% NSR and Larose to an existing 3% NSR. The NSR's described herein apply to all minerals in perpetuity.

On June 7, 2011, the Company signed a letter agreement with other parties in which it agreed to acquire "Verneuil East", a 100% undivided interest in 9 mining claims located immediately east of Verneuil Central, in exchange for cash of $20,000 (paid), a share-based payment of 200,000 common shares (issued) and a 2% NSR in perpetuity. The Company may re-purchase half of the 2% NSR for $1,000,000 at any time.

Continued…

3. EXPLORATION AND EVALUATION ASSETS (Continued)

b) Verneuil and Larose (Continued)

On June 13, 2011, the Company signed a letter agreement with other parties in which it agreed to acquire "Verneuil West", a 100% undivided interest in 20 mining claims located immediately west of Verneuil Central, in exchange for cash of $30,000 (paid), a share-based payment of 300,000 common shares (issued) and 150,000 warrants (issued and exercisable at a price of $0.30 for 2 years), and a 2% NSR in perpetuity. The Company may re-purchase half of the 2% NSR for $1,000,000 at any time.

The TSX-V approved the Verneuil/Larose transaction on May 27, 2011 and the Verneuil East and West transactions on June 21, 2011. These three transactions closed on June 28, July 20 and June 29, 2011, respectively.

The Company and Golden Tag agreed that Golden Tag is not required to contribute financially towards deferred exploration expenditures incurred on the Verneuil Central property prior to January 1, 2012. For the year ended December 31, 2012, the parties have further agreed that Golden Tag's share of the Verneuil Central exploration expenditures is $100,000. As at December 31, 2012, this amount had been received and is therefore recorded as a reduction of deferred exploration expenditures (i.e. included in the $14,011 net deferred exploration expenditure for Verneuil Central in the continuity schedule for 2012).

On December 8, 2011, the Company entered into an option agreement with Golden Share Mining Corporation ("Golden Share") whereby Golden Share may earn up to a 50% interest in the Larose property. Under the terms of the agreement, Golden Share agreed to issue: (i) 100,000 shares to the Company on the later of execution of the agreement and TSX-V approval (received with an assigned value of $8,500) and (ii) an additional 100,000 shares on the first anniversary date of the agreement (received with an assigned value of $3,000 on December 13, 2013). Golden Share also agreed to spend $200,000 in the first year of the agreement on exploration of the property (completed) plus another $150,000 in each of years two and three of the agreement. The parties agreed that at the time they become 50/50 owners in the property, they would enter into a joint venture agreement with Golden Share as the operator.

On December 18, 2012, the parties amended the December 8, 2011 option agreement to allow Golden Share to extend the second year commitment by one year (i.e. to December 8, 2014), and move the third year commitment into a fourth year (i.e. which ends on December 8, 2015). Golden Share also agreed to pay $5,000 of a June 2013 $10,000 advance royalty payment, which the Company is responsible for. Golden Share has agreed to keep the property in good standing while the option agreement, as amended, is in effect.

c) Guyenne

On August 29, 2012, the Company entered into an option agreement with Globex Mining Enterprises Inc. (TSX:GMX, hereafter "Globex") to earn a 50% interest in the 7 claims known as the Guyenne Property. The claims are situated approximately 40 kilometres northwest of Amos, Quebec, which is northwest of Val-d'Or in the Abitibi Mining District.

Under the terms of the option agreement, the Company will pay a total of $105,000 cash and issue 550,000 common shares to Globex as follows – (i) an initial payment of $20,000 and 150,000 shares (representing the minimum commitment (completed), (ii) $25,000 and 150,000 shares on or before the first anniversary date, and (iii) $60,000 and 250,000 shares on or before the second anniversary date. In addition, the Company is required to spend a minimum of $1,500,000 exploring the claims, as follows – $250,000 in the first year (completed), $250,000 in the second year, and $1,000,000 in the third year.

The TSX-V approved the Guyenne transaction on September 18, 2012. The transaction closed on September 19, 2012. The Company also agreed to issue 100,000 common shares as a finder's fee on the closing of the option agreement. These shares were issued on October 3, 2012 at an assigned value of $10,500.

Continued…

(Unaudited – expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS (Continued)

d) Acquisition Costs Summary

Acquisition costs of exploration and evaluation assets for the years ended December 31, 2011 and 2012 are summarized below. The values assigned to the common shares issued by the Company were based on the closing share price on the respective dates of issuance.

Properties	# of common shares issued	Value of common shares Issued	Cash payments due	Option payments rec'd	Legal and other	Totals
Year ended December 31, 2011:						
Venton Lake, ON	150,000	$ 30,000	$ 75,000	$ -	$ 7,536	$ 112,536
Larose, ON	400,000	80,000	(1) 10,000	(2) (8,500)	11,528	93,028
Verneuil, QC						
Verneuil Central	600,000	120,000	-	-	17,372	137,372
Verneuil West	300,000	60,000	30,000	-	3,926	93,926
Verneuil East	200,000	43,000	20,000	-	2,615	65,615
Acquisition costs for year	1,650,000	$ 333,000	$ 135,000	$ (8,500)	$ 42,977	$ 502,477
Year ended December 31, 2012:						
Venton Lake, ON	50,000	$ 4,250	$ 75,000	$ -	$ -	$ 79,250
Larose, ON	-	-	(1) 10,000	(2) (3,000)	-	7,000
Guyenne. QC	(3) 250,000	30,000	20,000	-	12,675	62,675
Acquisition costs for year	300,000	$ 34,250	$ 105,000	$ (3,000)	$ 12,675	$ 148,925

Comments:
(1) = advance royalty payment made pursuant to an existing 3% NSR
(2) = issue date fair value of shares of Golden Share received as option payments (see Notes 3b and 5)
(3) = includes finder's fee of 100,000 common shares (see Note 3c)

e) Option Agreement – Terminated

On October 4, 2012, the Company entered into an option letter agreement to earn up to a 60% undivided interest in certain mining concessions (the "Jobo Claro Concessions" and the "Maimon Concessions") located in the Dominican Republic. The letter agreement was further amended on November 19, 2012.

The two concessions were owned 100% by Everton Resources Inc. ("Everton" – TSX-V:EVR). Under the letter agreement, the Company had an aggregate, three-year, earn-in requirement to pay $150,000 cash, issue 7,000,000 common shares and incur $3,000,000 of exploration work on the underlying properties.

The parties intended to execute a definitive agreement after the completion of the necessary due diligence, as outlined in the letter agreement. The agreements and the transactions contemplated therein were subject to the approval of the TSX-V. The Company performed various due diligence procedures in November and December 2012, including obtaining a technical report. On December 21, 2012, the Company informed Everton that it was terminating the letter agreement.

As at December 31, 2012, the Company has expensed/accrued consulting and legal fees of $9,544 and $12,488, respectively, in connection with the terminated transaction. These amounts were recorded directly in operating expenses; therefore, they are excluded from the Acquisition Costs Summary disclosed in Note 3d.

Continued…

(Unaudited – expressed in Canadian dollars)

4. EQUIPMENT

A continuity schedule of the Company's equipment for the years ended December 31, 2011 and 2012 follows.

Year ended December 31, 2011	Field equipment	Office equipment	All-terrain vehicle	Total
Cost				
As at January 1, 2011	$ 13,203	$ 726	$ 19,021	$ 32,950
Additions for year	-	1,859	-	1,859
Disposals for year	-	-	(19,021)	(19,021)
As at December 31, 2011	13,203	2,585	-	15,788
Accumulated Depreciation				
As at January 1, 2011	6,443	232	15,214	21,889
Depreciation for year	1,352	470	574	2,396
Disposals for year	-	-	(15,788)	(15,788)
As at December 31, 2011	7,795	702	-	8,497
Net Book Value				
As at January 1, 2011	$ 6,760	$ 494	$ 3,807	$ 11,061
Net Book Value				
As at December 31, 2011	$ 5,408	$ 1,883	$ -	$ 7,291

Year ended December 31, 2012	Field equipment	Office equipment	All-terrain vehicle	Total
Cost				
As at January 1, 2012	$ 13,203	$ 2,585	$ -	$ 15,788
Additions for year	-	-	-	-
Disposals for year	(13,203)	-	-	(13,203)
As at December 31, 2012	-	2,585	-	2,585
Accumulated Depreciation				
As at January 1, 2012	7,795	702	-	8,497
Depreciation for year	1,200	400	-	1,600
Disposals for year	(8,995)	-	-	(8,995)
As at December 31, 2012	-	1,102	-	1,102
Net Book Value				
As at January 1, 2012	$ 5,408	$ 1,883	$ -	$ 7,291
As at December 31, 2012	$ -	$ 1,483	$ -	$ 1,483

During the year ended December 31, 2012, the Company disposed of its field equipment (2011 – all-terrain vehicle) at Morris Lake for nil (2011 – nil) proceeds, resulting in a loss on disposal of $4,208 (2011 – $3,233).

Continued…

(Unaudited – expressed in Canadian dollars)

5. INVESTMENTS

	2012	2011
Investment in Golden Share Mining Corporation 200,000 (2011 – 100,000) common shares, recorded at a quoted fair value of $0.04 (2011 – $0.085) per share	$ 8,000	$ 8,500
Investment in Copper Hill Resources Inc. ("CHRI") 10% interest, at cost	-	1,250
Total investments	$ 8,000	$ 9,750

a) Held-For-Trading Investment
Golden Share Mining Corporation is a publicly traded company listed on the TSX-V under the trading symbol "GSH" (see Note 3b, Exploration and Evaluation Assets – Verneuil and Larose Properties).

On December 8, 2011, the Company received 100,000 common shares of Golden Share as the first scheduled option payment. As at December 31, 2011, these shares were carried at the issue date total fair value of $8,500. On December 13, 2012, the Company received an additional 100,000 common shares of Golden Share as the second scheduled option payment. The issue date total fair value of these shares was $3,000.

As at December 31, 2012, the investment of 200,000 shares is carried at a total quoted fair value of $8,000. An unrealized loss of $3,500 (2011 – nil) on shares of Golden Share is reported in other expense.

b) Unquoted Equity Instrument
CHRI is a privately owned mineral exploration company that owns a 100% interest in the Powderhorn Lake and Turk's Gut properties located in Newfoundland and Labrador, Canada. Prior to 2006, CHRI was a wholly owned subsidiary of the Company.

On March 22, 2012, the Company sold its 10% investment in CHRI for proceeds of $20,000 and a 2% NSR on CHRI's "Turks Gut" exploration property. CHRI may purchase at any time from the Company, half of the 2% NSR for $1 million. No value has been assigned to the 2% NSR in the Company's financial statements. The realized gain on sale of investment of $18,750 is reported as other income for the year ended December 31, 2012.

6. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	2012	2011
Amounts receivable		
Provincial sales tax refundable (HST/QST)	$ 97,410	$ 92,365
Due from related party (Note 10)	10,000	-
Total amounts receivable	107,410	92,365
Prepaid expenses	4,438	10,922
Total amounts receivable and prepaid expenses	$ 111,848	$ 103,287

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL

a) Authorized Share Capital

The Company's authorized share capital consists of an unlimited number of voting common shares without nominal or par value.

b) Issued Share Capital

As at December 31, 2012, the Company's issued share capital is 77,384,369 (2011 – 70,569,369) common shares with a stated value of $9,043,120 (2011 - $8,383,653). A continuity of the Company's share capital is disclosed in the Statements of Changes in Equity. Details of common shares issued to acquire E&E assets are discussed in Note 3. Details of common shares issued pursuant to private placements are discussed below.

c) Non-brokered Private Placements

During the year ended December 31, 2011, a single non-brokered private placement of units consisting of common shares and common share purchase warrants, was as follows:

Details	Effective # of units issued	Unit price	Gross proceeds	# of shares issued	# of investor warrants issued	Exercise price of investor warrants (term)
Flow-through:						
November 2011	5,243,750	$ 0.15	$ 786,563	5,243,750	2,621,875	$ 0.20 (2-year)
Non-flow-through:						
November 2011	1,747,917	0.15	262,187	1,747,917	873,959	$ 0.20 (2-year)
Totals	6,991,667		$ 1,048,750	6,991,667	3,495,834	

The November 2011 private placement consisted of 5 separate closings on November 14, 17, 21, 22 and December 1, 2011. The private placement was designated as being 75% flow-through. Issue costs charged to share capital for this private placement were $98,369. Units issued were subject to a 4-month restricted period. Of the units issued, 70,000 units were acquired by a director of the Company for gross proceeds of $10,500.

The issuance of the 5,243,750 flow-through shares contained no identifiable premium paid by investors.

During the year ended December 31, 2012, non-brokered private placements of units consisting of common shares and common share purchase warrants, were as follows:

Details	Effective # of units issued	Unit price	Gross proceeds	# of shares issued	# of investor warrants issued	Exercise price of investor warrants (term)
Flow-through:						
October 26/31, 2012 (1a)	524,800	$ 0.60	$ 314,880	2,624,000	1,312,000	$ 0.17 (2-year)
December 31, 2012 (1b)	420,000	0.60	252,000	2,100,000	1,050,000	$ 0.17 (2-year)
	944,800		566,880	4,724,000	2,362,000	
Non-flow-through:						
October 26/31, 2012 (1a)	131,200	0.60	78,720	656,000	328,000	$ 0.17 (2year)
December 31, 2012 (1b)	105,000	0.60	63,000	525,000	262,500	$ 0.17 (2-year)
December 31, 2012	500,000	0.10	50,000	500,000	500,000	$ 0.15 (2-year)
	736,200		191,720	1,681,000	1,090,500	
Totals	1,681,000		$ 758,600	6,405,000	3,452,500	

(1a/b) Each issuance was actually made on the basis of 4 flow-through shares, 1 non-flow-through share and 2.5 warrants at a unit price of $0.60 each. They have been separated here to show "effective" units.

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

c) Non-brokered Private Placements (Continued)
The October 2012 private placement consisted of 2 separate closings and was designated as being 80% flow-through. The first December 31, 2012 private placement was designated as 80% flow-through. The second December 31, 2012 private placement was designated as 100% non-flow-through. Issue costs charged to share capital in 2012 were $76,183. Units issued pursuant to the private placements were subject to a 4-month restricted period. In 2012, 20,000 units were acquired by an advisory committee member for gross proceeds of $12,000.

The October 26, 2012 issuance of flow-through shares contained an identifiable premium paid by investors of $58,000. The December 31, 2012 issuance of flow-through shares contained an identifiable premium paid by investors of $11,000. The combined premium of $69,000 will be recorded in 2013 as a reduction of deferred income tax expense as the related exploration expenditures are incurred.

d) Common Share Purchase Warrants
Continuity of Warrants for 2011
A continuity schedule of the Company's outstanding common share purchase warrants for the year ended December 31, 2011 follows:

Expiry date(s)	Term (yrs.)	Exercise price	January 1, 2011	Issued 2011	Exercised 2011	Expired 2011	December 31, 2011
December 30, 2011	1 *	$0.50	1,116,666	-	-	(1,116,666)	-
December 30, 2011	1 **	$0.30	142,333	-	-	(142,333)	-
June 30, 2012	3 *	$0.20	4,091,500	-	-	-	4,091,500
November 2, 2012	2 *	$0.15	3,750,000	-	-	-	3,750,000
November 2, 2012	2 **	$0.08	110,000	-	-	-	110,000
December 30, 2012	3 *	$0.20	3,200,000	-	(200,000)	-	3,000,000
January 27, 2013	3 *	$0.20	14,000,000	-	(346,000)	-	13,654,000
June 29, 2013	2 **	$0.30	-	150,000	-	-	150,000
Nov./Dec. 2013	2 *	$0.20	-	3,495,834	-	-	3,495,834
Nov./Dec. 2013	2 **	$0.20	-	651,667	-	-	651,667
Total warrants			26,410,499	4,297,501	(546,000)	(1,258,999)	28,903,001
Weighted-average exercise price			$0.206	$0.203	($0.20)	($0.477)	$0.194

* = investor warrants ** = other warrants (i.e. issued to non-investors)

Other Warrants Issued in 2011
An aggregate of 150,000 other warrants were issued on June 29, 2011 in connection with the acquisition of E&E assets (see Note 3b, Exploration and Evaluation Assets – Verneuil and Larose Properties) and were recorded using an issue date aggregate total fair value of $17,000 ($0.1133 per warrant issued) based on the Black-Scholes option-pricing model. Weighted-average Black-Scholes assumptions used for valuing these other warrants were as follows: expected dividend yield – 0%; expected volatility – 128%; risk-free interest rate – 1.56%; expected life – 2.0 years.

An aggregate of 651,667 other warrants were issued to brokers in connection with the November 2011 private placement, and assigned an issue date aggregate total fair value of $45,000 ($0.0691 per warrant issued) based on the Black-Scholes option-pricing model. Weighted-average Black-Scholes assumptions used for valuing these other warrants were as follows: expected dividend yield – 0%; expected volatility – 120%; risk-free interest rate – 0.9%; expected life – 2.0 years.

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

d) Common Share Purchase Warrants (Continued)

Warrant Exercises in 2011

On February 2, 2011, the Company received proceeds of $40,000 from the exercise of 200,000 investor warrants at $0.20 per share. On April 19 and 21, 2011, the Company received total proceeds of $69,200 from the exercise of 346,000 warrants at $0.20 per share.

Continuity of Warrants for 2012

A continuity schedule of the Company's outstanding common share purchase warrants for the year ended December 31, 2012 follows:

Expiry date(s)	Term (yrs)	Exercise price	January 1, 2012	Issued 2012	Exercised 2012	Expired 2012	December 31, 2012
June 30, 2012	3 *	$0.20	4,091,500	-	-	(4,091,500)	-
November 2, 2012	2 **	$0.08	110,000	-	(110,000)	-	-
May 2, 2013 (E1)	2.5 *	$0.15	3,750,000	-	-	-	3,750,000
June 30, 2013 (E2)	3.5 *	$0.20	3,000,000	-	-	-	3,000,000
July 27, 2013 (E3)	3.5 *	$0.20	13,654,000	-	-	-	13,654,000
June 29, 2013	2 **	$0.30	150,000	-	-	-	150,000
Nov./Dec. 2013	2 *	$0.20	3,495,834	-	-	-	3,495,834
Nov./Dec. 2013	2 **	$0.20	651,667	-	-	-	651,667
October 2014	2 *	$0.17	-	1,640,000	-	-	1,640,000
October 2014	2 **	$0.12	-	212,100	-	-	212,100
December 31, 2014	2 *	$0.17	-	1,312,500	-	-	1,312,500
December 31, 2014	2 **	$0.12	-	183,750	-	-	183,750
December 31, 2014	2 *	$0.15	-	500,000	-	-	500,000
Total warrants			28,903,001	3,848,350	(110,000)	(4,091,500)	28,549,851
Weighted-average exercise price			$0.194	$0.160	($0.080)	($0.200)	$0.189

* = investor warrants ** = other warrants (i.e. issued to non-investors)

Other Warrants Issued in 2012

An aggregate of 212,100 other warrants were issued to brokers in connection with the October 2012 private placements, and assigned an issue date aggregate fair value of $8,000 ($0.038 per warrant issued) based on the Black-Scholes option-pricing model. Weighted-average Black-Scholes assumptions used for valuing these other warrants were as follows: expected dividend yield – 0%; expected volatility – 100%; risk-free interest rate – 1.07%; expected life – 2.0 years.

An aggregate of 183,750 other warrants were issued to brokers in connection with the first December 31, 2012 private placement, and assigned an issue date aggregate total fair value of $9,000 ($0.049 per warrant issued) based on the Black-Scholes option-pricing model. Weighted-average Black-Scholes assumptions used for valuing these other warrants were as follows: expected dividend yield – 0%; expected volatility – 111%; risk-free interest rate – 1.17%; expected life – 2.0 years.

Warrant Exercises in 2012

On October 23, 2012, the Company received proceeds of $6,000 from the exercise of 75,000 other warrants at $0.08 per share. On November 2, 2012, the Company received proceeds of $2,800 from the exercise of 35,000 other warrants at $0.08 per share.

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

d) Common Share Purchase Warrants (Continued)

Investor Warrant Extensions and Acceleration

In October 2012, the Company applied for and received TSX-V approval for the six-month extension of 3,750,000 warrants from November 2, 2012 to May 2, 2013 ("E1"). In December 2012, the Company applied for and received TSX-V approval for the six-month extension of 3,000,000 warrants from December 31, 2012 to June 30, 2013 ("E2"), and 13,654,000 warrants from January 25, 2013 to July 27, 2013 ("E3").

The Company has the right to accelerate the expiry of the unexercised 13,654,000 investor warrants, which otherwise expire on July 27, 2013, if the Company's stock trades over $0.30 for 30 consecutive days.

Other Information

Expired warrants have no direct accounting effect though there may be income tax adjustments. The accounting effects of the various warrant transactions described above are reflected in the Statements of Changes in Equity.

e) Common Share Purchase Options

Under the Company's stock option plan, common share purchase options may be granted to employees for up to 10% of the issued and outstanding common shares. The exercise price of these options is not less than the Company's closing market price on the day prior to the grant of the options less the applicable discount permitted by the TSX-V, and will not otherwise be less than $0.10 per share. The maximum exercise period after the grant of the option is 5 years.

All of the Company's outstanding and exercisable options have a 5-year term and vested at their respective grant dates.

Continuity of Options for 2011

A continuity schedule of the Company's outstanding and exercisable common share purchase options for the year ended December 31, 2011 is as follows:

Expiry date	Exercise price	January 1, 2011	Granted 2011	Exercised 2011	Expired 2011	December 31, 2011
March 3, 2011	$0.15	175,000	-	(125,000)	(50,000)	-
June 19, 2011	$0.15	50,000	-	(50,000)	-	-
January 26, 2012	$0.13	250,000	-	(100,000)	-	150,000
January 8, 2013	$0.135	50,000	-	-	-	50,000
April 9, 2013	$0.16	550,000	-	-	-	550,000
September 12, 2013	$0.115	100,000	-	-	-	100,000
February 4, 2015	$0.11	900,000	-	(250,000)	-	650,000
October 6, 2015	$0.125	1,200,000	-	-	-	1,200,000
November 15, 2015	$0.17	700,000	-	-	-	700,000
May 17, 2016	$0.24	-	300,000	-	-	300,000
September 12, 2016	$0.17	-	1,675,000	-	-	1,675,000
December 8, 2016	$0.20	-	1,675,000	-	-	1,675,000
Total options		3,975,000	3,650,000	(525,000)	(50,000)	7,050,000
Weighted-average exercise price		$0.140	$0.190	$0.127	$0.150	$0.164

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

e) Common Share Purchase Options (Continued)

Options Exercised in 2011

On February 25, 2011, the Company received $18,750 from the exercise of 125,000 options by a director. The grant date fair value of these options was $11,165. On April 25, 2011, the Company received $27,500 from the exercise of 250,000 options by a Consultant (who was a former CEO/director of the Company). The grant date fair value of these options was $23,121. On June 8, 2011, the Company received $20,500 from the exercise of 150,000 options by a director. The grant date fair value of these options was $14,367.

Options Expired in 2011

On March 2, 2011, 50,000 vested options expired unexercised. The grant date fair value of these options was $4,467.

Continuity of Options for 2012

A continuity schedule of the Company's outstanding and exercisable common share purchase options for the year ended December 31, 2012 is as follows:

Expiry date	Exercise price	January 1, 2012	Granted 2012	Exercised 2012	Expired 2012	December 31, 2012
January 26, 2012	$0.13	150,000	-	-	(150,000)	-
January 8, 2013	$0.135	50,000	-	-	-	50,000
April 9, 2013	$0.16	550,000	-	-	-	550,000
September 12, 2013	$0.115	100,000	-	-	-	100,000
February 4, 2015	$0.11	650,000	-	-	-	650,000
October 6, 2015	$0.125	1,200,000	-	-	-	1,200,000
November 15, 2015	$0.17	700,000	-	-	-	700,000
May 17, 2016	$0.24	300,000	-	-	-	300,000
September 12, 2016	$0.17	1,675,000	-	-	-	1,675,000
December 8, 2016	$0.20	1,675,000	-	-	(200,000)	1,475,000
February 9, 2017	$0.175	-	150,000	-	-	150,000
Total options		7,050,000	150,000	-	(350,000)	6,850,000
Weighted-average exercise price		$0.164	$0.170	$ -	($0.172)	$0.164

Options Exercised in 2012

No options were exercised in 2012.

Options Expired in 2012

On January 26, 2012, 150,000 vested options expired unexercised. The grant date fair value of these options was $14,857. On May 28, 2012, 200,000 vested options expired unexercised. The grant date fair value of these options was $32,478.

Options Outstanding/Exercisable

The 6,850,000 (2011 – 7,050,000) options outstanding and exercisable as at December 31, 2012 have a weighted-average remaining contractual life of 3.1 years (2011 – 3.9), and represent approximately 8.9% (2011 – 10.0%) of the Company's outstanding common shares.

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

e) Common Share Purchase Options (Continued)
Share-based Compensation Expense
Annual share-based compensation expense for 2012 of $10,000 (2011 – $566,000) was recorded based on the estimated fair value of options granted, as determined using the Black-Scholes option-pricing model. The assumptions used and the valuation results were as follows:

Grant Date	February 9, 2012	May 17, 2011	September 12, 2011	December 8, 2011	Total 2011
Assumptions used					
# of options granted	150,000	300,000	1,675,000	1,675,000	3,650,000
Expected dividend yield	0%	0%	0%	0%	
Expected volatility	150%	135%	133%	149%	
Risk-free interest rate	1.37%	2.53%	1.45%	1.33%	
Expected life in years	5.0	5.0	5.0	5.0	
Exercise price	$0.175	$0.24	$0.17	$0.20	
Valuation results					
Grant date fair value/option	$0.067	$0.207	$0.138	$0.163	$0.155
Compensation expense	$10,000	$62,000	$231,000	$273,000	$566,000

Share-based Compensation Expense
See Note 10 for a breakdown of compensation expense by employee group.

Other Information
The accounting effects of the various stock option transactions described above, are reflected in the Statements of Changes in Equity. See Note 15a concerning options granted/expired after December 31, 2012.

f) Diluted Loss Per Share
Loss per share is calculated using the basic and diluted weighted-average number of common shares outstanding during the year ended December 31, 2012, which was 71,246,178 (2011 – 63,316,385). The determination of the weighted-average number of shares outstanding for the calculation of diluted loss per share does not include the potential effect of 28,549,851 (2011 – 28,903,001) outstanding warrants and 6,850,000 (2011 – 7,050,000) outstanding options, as they are anti-dilutive.

Continued…

(Unaudited – expressed in Canadian dollars)

8. INCOME TAXES

The Company recognizes deferred tax assets in respect of deductible temporary differences, which includes unused tax losses and other tax deductions/credits but only to the extent that it is probable that future taxable income will be available against which they can be utilized. The Company does not presently satisfy this recoverability test; accordingly, no net deferred tax asset has been recorded.

There are no current taxes payable or recoverable for either 2012 or 2011.

a) Deferred Tax Provision

The deferred tax provision for the years ended December 31, 2012 and 2011 consists of the following amounts:

	2012	2011
(Loss) before income taxes	$ (400,763)	$ (4,630,834)
Statutory income tax rate for year	26.8%	28.25%
Expected deferred tax (recovery) for year	$ (107,000)	$ (1,308,000)
Adjustments		
Share-based compensation	3,000	160,000
Renunciation of exploration expenditures	195,000	284,000
Other, net	1,400	(4,382)
Change in expected tax rates, excluding effect on unrecognized deferred tax assets	33,600	101,000
Deferred tax assets (recognized) not recognized for accounting purposes	(106,000)	426,000
Flow-through share premium adjustment	-	(35,667)
Deferred tax expense (recovery) for year	$ 20,000	$ (377,049)

b) Deferred Tax Liability

A continuity schedule of the Company's net deferred tax liability for the years ended December 31, 2012 and 2011 follows:

	2012	2011
Net deferred tax (liability), beginning of year	$ -	$ (363,382)
Per Statements of Loss and Comprehensive Loss		
Deferred income tax (expense) recovery for year	(20,000)	377,049
Flow-through share premium adjustment included therein	-	(35,667)
Per Statements of Loss and Comprehensive Loss		
Tax benefit of share issue expenses	20,000	22,000
	-	363,382
Net deferred tax (liability), end of year	$ -	$ -

Continued…

(Unaudited – expressed in Canadian dollars)

8. INCOME TAXES (Continued)

c) Unrecognized Deferred Tax Asset

The composition of the Company's unrecognized deferred tax asset as at December 31, 2012 and 2011 is as follows:

	2012	2011
Non-capital loss carry-forwards	$ 202,000	$ 177,200
Share issue costs	45,000	34,800
Other	21,000	18,500
Exploration and evaluation assets	(857,000)	(713,500)
Deferred tax liability, before 2011 write-downs of E&E assets	(589,000)	(483,000)
Write-downs of E&E assets of $3,635,489 in 2011 (Note 3)	974,000	909,000
Total unrecognized deferred tax asset	$ 385,000	$ 426,000

The write-down of exploration and evaluation assets of $3,635,489 in 2011 results in a potential deferred tax benefit as at December 31, 2012 of approximately $974,000 (2011 – $909,000) using a 26.8% (2011 – 25%) expected future tax rate. Of this potential benefit only $589,000 (2011 – $483,000) has been recorded in these financial statements, resulting in an unrecognized deferred tax asset of $385,000 (2011 – $426,000).

d) Deductions Available for Income Tax Purposes

As at December 31, 2012, the Company has the following deductions available to reduce future taxable income:

Loss carry-forwards	
Non-capital losses	$ 755,000
Capital losses	978,000
Share issue costs	169,000
Other ("CEC" and "UCC")	80,000
Canadian development expense ("CDE")	861,000
Canadian exploration expenditures ("CEE")	1,935,000

The non-capital loss carry-forwards of $755,000 expire as follows: 2014 – $196,000; 2015 – $33,000; 2026 – $54,000; 2027 – $85,000; 2028 – $66,000; 2029 – $77,000; 2030 – $55,000; 2031 – $143,000; and 2032 – $46,000. The capital losses may only be utilized for tax purposes against capital gains.

e) Flow-through Share Renouncements

As at December 31, 2012, the Company effectively renounced for accounting purposes approximately $567,000 (2011 – $787,000) of exploration expenditures incurred, including $7,000 (2011 – $65,000) using the general rule and $560,000 (2011 – $722,000) using the look-back. These renouncements have been reflected in the Company's flow-through filings and will be further confirmed in 2013 when the Company files its 2012 corporate income tax returns.

9. TRADE AND OTHER PAYABLES

	2012	2011
Trade payables	$ 358,133	$ 386,242
Accrued expenses	183,038	128,504
Due to related parties (Note 10)	42,356	32,507
	$ 583,527	$ 547,253

Continued…

(Unaudited – expressed in Canadian dollars)

10. RELATED PARTY TRANSACTIONS

The Company considers its related parties to consist of the Company's key management personnel (e.g. officers, directors and advisory committee members) and companies related to such individuals.

a) Summary of Related Party Transactions

Details of the Company's transactions with key management personnel and their related companies, for the years ended December 31, 2011 and 2012, are as follows:

	2012	2011
Statements of Financial Position		
Evaluation and exploration assets – capitalized during year		
Legal fees – officer's law firm, capitalized as acquisition costs	$ 12,675	$ 37,062
Geology fees – advisory committee members, capitalized to deferred exploration expenditures	20,235	24,000
	32,910	61,062
Statements of Equity		
Legal fees – officer's law firm, included in issue costs	20,605	12,563
Statements of Loss and Comprehensive Loss		
Management fees – officers' companies	160,733	158,284
Website development fees – officer's company	3,995	-
Rent – officers and directors	22,080	12,250
Legal fees – officer's law firm	74,176	61,818
Investigation of new properties – advisory committee members	29,425	5,975
	290,409	238,327
Share-based compensation		
Common share purchase options granted to employees		
Officers	-	197,403
Non-executive directors	10,000	191,821
Advisory committee members and consultants	-	176,776
Total (Note 7e)	10,000	566,000
Total expense	$ 300,409	$ 804,327

The Company's officers receive fees through their companies pursuant to fee-for-service arrangements in lieu of salaries. The Company's board of directors approves these fees and the share-based compensation. Common shares and common share purchase warrants acquired by employees during the year on the same terms as other investors, are described in Note 7c, Share Capital – Non-brokered Private Placements.

b) Related Party Balances

Amounts receivable as at December 31, 2012 (see Note 6) includes $10,000 (2011 – nil) due from the President's company. This amount is non-interest bearing and without fixed terms of repayment.

Trade and other payables as at December 31, 2012 includes amounts owed to related parties of $42,356 (2011 – $32,507) consisting of amounts owed to officers and their companies/law firm (see Note 9) and advisory committee members. These related party liabilities are unsecured, non-interest bearing and due within 30 days.

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11. COMMITMENTS AND CONTINGENCIES

a) Flow-through Shares

As at December 31, 2012, the Company is committed to incur, on a best efforts basis, $566,880 in qualifying Canadian exploration expenditures pursuant to two 2012 private placements for which flow-through share proceeds had been received and renounced to investors with an effective date of December 31, 2012. As at December 31, 2012, the Company had incurred qualifying expenditures of approximately $7,000; accordingly, the Company must incur approximately $560,000 of qualifying expenditures prior to January 1, 2014.

The Company believes that it has incurred sufficient qualifying expenditures to satisfy its December 31, 2011 and prior flow-through share commitments.

The Company has agreed to indemnify the subscribers of its flow-through shares for tax-related amounts that become payable by them, if the Company fails to meet it expenditure commitments.

b) Environmental Contingencies

The Company's exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations and has made, and expects to make in the future, appropriate expenditures to comply with such laws and regulations.

12. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of components of shareholders' equity. 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 mineral properties. 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 properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or 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. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Continued…

(Unaudited – expressed in Canadian dollars)

13. FINANCIAL RISK FACTORS

a) Financial Instruments

The Company's financial instruments consist of financial assets and liabilities as outlined below and as further explained in Note 2d.

	2012	2011
Statements of Financial Position		
Financial assets		
FVTPL – Held for trading		
Cash equivalents – GIC's bearing interest at 0.9%, cashable anytime without penalty	$ -	$ 500,000
Investment (Note 5)	8,000	8,500
	8,000	508,500
Loans and receivables		
Amounts receivable (Note 6)	107,410	92,365
Cash	500,124	508,105
	607,534	600,470
Unquoted equity investment (Note 5)	-	1,250
Total financial assets	$ 615,534	$ 1,050,091
Financial liabilities		
Other financial liabilities		
Trade and other payables (Note 9)	$ 583,527	$ 547,253
Excess of financial assets over financial liabilities	$ 32,007	$ 502,838
Statements of Cash Flows		
Cash	$ 500,124	$ 508,105
Cash equivalents	-	500,000
Cash and cash equivalents, end of year	$ 500,124	$ 1,008,105

As at December 31, 2012, the carrying values and fair values of the Company's financial instruments are approximately the same. In addition, the Company's financial instruments that are carried at fair value consist of cash equivalents, classified as "Level 2", and a FVTPL investment, classified as "Level 1", within the fair value heirarchy.

b) Financial Risks

Risk exposures and the impact on its financial instruments are summarized below.

Credit Risk

The Company's financial assets are exposed to some credit risk. The Company has no significant concentration of credit risk arising from operations. Guaranteed investment certificates are invested with reputable financial institutions from which management believes the risk of loss to be remote. The Company does not use derivatives to manage credit risk.

Continued…

13. FINANCIAL RISK FACTORS (Continued)

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 at December 31, 2012, the Company has a cash and cash equivalents balance of $500,124 (2011 – $1,008,105) to settle trade and other payables of $583,527 (2011 – $547,253).

All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company is also committed to spending an additional $560,000 (2011 – $722,000) on qualifying Canadian exploration expenditures prior to January 1, 2014 (2012 – January 1, 2013).

Market Risk
The Company's market risk has three components – interest rate risk, foreign currency risk and price risk.

(i) Interest rate risk
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank.

(ii) Foreign currency risk
The Company's functional currency is the Canadian dollar and all purchases are transacted in Canadian dollars. The Company has no foreign operations and thus has no foreign exchange risk derived from either currency conversions or from holding foreign currencies. The Company does not speculate in the foreign currency market nor does it have any need to acquire foreign currency hedges.

(iii) Price risk
The Company is exposed to some price risk with respect to commodity prices; however, this is limited since the Company is not a producing entity. The Company closely monitors commodity prices to determine its appropriate course of action.

c) Sensitivity Analysis
Management believes that sensitivity analysis on the Company's financial instruments is presently unnecessary, since any changes in interest rates and commodity prices are unlikely to have a material effect on the Company's financial instruments.

14. SEGMENTED INFORMATION

The Company's operations comprise a single operating segment engaged in the acquisition, exploration and development of mineral properties in Canada.

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15. EVENTS OCCURRING AFTER THE REPORTING PERIOD

a) Common Share Purchase Options

On January 8, 2013, 50,000 options, held by an officer, expired unexercised (see Note 7e). The grant date fair value of these options was $5,000. On February 7, 2013, the Company granted 50,000 new options to the same officer. The new options, which vested immediately, have a five-year term and an exercise price of $0.12 each.

On April 9, 2013, an aggregate total of 550,000 options, held by directors, officers and consultants, expired unexercised (see Note 7e). The grant date fair value of these options was $45,833.

b) Option Agreement

On March 4, 2013, the Company entered into an option agreement to earn a 100% undivided interest in the Vent d'Or Property ("Vent d'Or"). Vent d'Or, which consists of 44 mineral claims, is located southwest of the town of Chibougamau in the Druillettes and Hazur Townships in Central Quebec.

The terms of the option are as follows:

- Pay $15,000 cash and issue 400,000 common shares on closing (completed on March 4 and 21, 2013, respectively).
- Pay $30,000 cash and issue 300,000 common shares on or before June 1, 2014.
- Pay $45,000 cash and issue 300,000 common shares on or before June 1, 2015.

In addition, the Company has agreed to grant a 2% NSR royalty to the vendors. The Company may acquire 50% of the NSR by making a payment of $1,000,000.

The TSX-V approved the Vent d'Or transaction on March 18, 2013 and the transaction closed on March 25, 2013.

c) Letter of Intent

On November 15, 2012, the Company signed a non-binding letter of intent to acquire Trilogy Mining Corporation ("Trilogy"), a privately owned Canadian mineral explorer active in Uruguay.

Trilogy, through its wholly owned subsidiaries, owns the "Ecovent Projects", a mineral exploration property located in the Florida Greenstone belt in southwestern Uruguay. Trilogy also holds a 51% interest in an adjacent property, "Chamizo Project", with the right to increase its ownership to 80% by investing $350,000 on the property prior to September 30, 2015. Two other permits, Rincon and El Cuervo, are to be granted by the Uruguayan authorities and added to Trilogy's portfolio.

The Company has proposed a share-for-share exchange with the shareholders of Trilogy, whereby the Company would issue 15,000,000 common shares from treasury in exchange for 100% of the shares of Trilogy. The Company's shares would be placed in escrow and released in three tranches – the first tranche of 5,000,000 shares on closing, the second tranche of 5,000,000 shares two months after closing, and the final tranche of 5,000,000 shares within ten days of the Trilogy subsidiary receiving a "prospecting permit" for the Ecovent Projects. The completion of the acquisition is conditional on the Company completing a private placement for a minimum of $300,000. The Company will also be required to replace an existing $50,000 Cash Guarantee Environmental Bond within 12 months from the date of closing.

The parties intend to execute a definitive agreement after the completion of all necessary due diligence, which is ongoing. The agreements and transactions contemplated herein are subject to the final approval of the TSX-V. The transaction was scheduled to close on January 31, 2013 assuming all conditions in the agreement were satisfied. The parties have extended the planned closing date to April 30, 2013.