Grenville Gold Corp.

Consolidated Financial Statements

December 31, 2012

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Grenville Gold Corp.

We have audited the accompanying consolidated financial statements of Grenville Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows 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.

Auditor's 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 auditor's 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 that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grenville Gold Corp. 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 modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Grenville Gold Corp.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
April 29, 2013

Grenville Gold Corp.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes		December 31, 2012		December 31, 2011 (Restated-Note 13)
ASSETS					
Current assets					
Cash		$	87,276	$	62,209
HST receivable			6,412		4,307
Prepaid expenses			6,025		25,008
			99,713		91,524
Non-current assets					
Equipment	5		3,521		10,236
Exploration and evaluation assets	6		3,817,693		3,589,762
TOTAL ASSETS		$	3,920,927	$	3,691,522
LIABILITIES					
Current liabilities					
Trade payables and accrued liabilties	7	$	84,552	$	107,149
Due to related parties	9		30,000		-
TOTAL LIABILITIES			114,552		107,149
SHAREHOLDERS' EQUITY					
Share capital			8,604,625		8,339,990
Subscriptions receivable			-		(11,910)
Reserves			3,993,593		3,808,228
Deficit			(8,791,843)		(8,551,935)
TOTAL EQUITY			3,806,375		3,584,373
TOTAL LIABILITIES AND SHAREHOLDERS'		$	3,920,927	$	3,691,522

Nature and continuance of operations (Note 1)

Approved on behalf of the Board of Directors on April 29, 2013:

"Sonny Janda"	*"Jack Bal"*
Director	Director

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

Grenville Gold Corp.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

	Note		December 31, 2012		December 31, 2011 (Restated-Note 13)
Expenses					
Amortization	5	$	1,773	$	1,405
Filing and transfer fees			16,411		24,145
Management fees and administration	9		68,678		76,899
Office and general			49,173		100,513
Professional fees			66,456		111,936
Rent	9		30,000		30,000
Stock-based compensation	8		-		393,147
			(232,491)		(738,045)
Other items					
Exploration and evaluation asset impairment	6		-		(761,564)
Other income			689		2,690
Foreign exchange gain (loss)			(4,842)		35,917
Loss on sale of equipment			(3,264)		-
			(7,417)		(722,957)
Net and comprehensive loss		$	(239,908)	$	(1,461,002)
Basic and diluted loss per common share		$	(0.02)	$	(0.14)
Weighted average number of common Shares outstanding – basic and diluted			15,731,426		10,162,449

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

Grenville Gold Corp.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

		Share capital				Reserves								
	Note	Number of shares		Amount		Subscription receivable		Option reserve		Warrant reserve		Deficit		Total
Balance at December 31, 2010		**5,570,389**	**$**	**7,698,655**	**$**	**-**	**$**	**2,479,256**	**$**	**210,997**	**$**	**(7,090,933)**	**$**	**3,297,975**
Net and comprehensive loss		-		-		-		-		-		(1,461,002)		(1,461,002)
Private placement		6,050,000		1,460,000		-		-		-		-		1,460,000
Share issue costs		-		(198,754)		-		-		104,917		-		(93,837)
Subscription receivable		-		-		(11,910)		-		-		-		(11,910)
Warrants issued with private placement		-		(619,911)		-		-		619,911		-		-
Shares canceled		(15,463)		-		-		-		-		-		-
Stock-based compensation		-		-		-		393,147		-		-		393,147
Balance at December 31, 2011		**11,604,926**		**8,339,990**		**(11,910)**		**2,872,403**		**935,825**		**(8,551,935)**		**3,584,373**
Net and comprehensive loss		-		-		-		-		-		(239,908)		(239,908)
Subscription receivable		-		-		11,910		-		-		-		11,910
Private placement		4,500,000		264,635		-		-		185,365		-		450,000
Balance at December 31, 2012		**16,104,926**	**$**	**8,604,625**	**$**	**-**	**$**	**2,872,403**	**$**	**1,121,190**	**$**	**(8,791,843)**	**$**	**3,806,375**

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

Grenville Gold Corp.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	December 31, 2012	December 31, 2011 (Restated-Note13)
Operating activities		
Net loss	$ (239,908)	$ (1,461,002)
Adjustments for non-cash items:		
Amortization	1,773	1,405
Exploration and evaluation asset impairment	-	761,564
Loss on sale of equipment	3,264	-
Stock-based compensation	-	393,147
Changes in non-cash working capital items:		
HST receivable	(2,105)	81,300
Prepaid expenses	18,983	(2,120)
Trade payables and accrued liabilities	(22,597)	(445,841)
Due to related parties	30,000	-
Net cash flows used operating activities	(210,590)	(671,547)
Investing activities		
Expenditures on exploration and evaluation assets	(227,931)	(647,789)
Acquisition of equipment	(1,393)	(11,386)
Proceeds received on the disposal of equipment	3,071	-
Net cash flows used in investing activities	(226,253)	(659,175)
Financing activities		
Proceeds on issuance of common shares	450,000	1,354,253
Subscriptions received	11,910	-
Net cash flows from financing activities	461,910	1,354,253
Increase in cash	25,067	23,531
Cash, beginning	62,209	38,678
Cash, ending	$ 87,276	$ 62,209

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

1. Nature and continuance of operations

Grenville Gold Corp. (the "Company") was incorporated under the laws of the province of Ontario by articles of incorporation effective November 17, 1994. By articles of amendment effective December 15, 1999, the private company restrictions were deleted from the articles. On June 19, 2009, the Company completed a continuance of business from Ontario to British Columbia. The Company is listed on the TSX Venture Exchange ("TSX-V: GVG"), the Frankfurt Stock Exchange in Germany ("Frankfurt:F9I"), and a pink sheet listing in the United States ("OTCPP:GVLGF").

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at December 31, 2012 the Company had not advanced its property to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and or private placement of common shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its consolidated statement of financial position.

2. Statement of compliance

The consolidated financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

3. Significant accounting policies

The financial statements were authorized for issue on April 29, 2013 by the directors of the Company.

Basis of measurement

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

Consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Details of controlled entities are as follows:

		Percentage owned	
	Country of Incorporation	**December 31, 2012**	**December 31, 2011**
Grenville Silveria Ltd.	Canada	100%	100%
Grenville Espanola Holdings Ltd.	Canada	100%	100%
Minera Grenville S.A.C.	Peru	100%	100%
Minera Espanola S.A.C.	Peru	100%	100%
Upper Canyon Minerals Peru S.A.C.	Peru	100%	N/A

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

3. Significant accounting policies (continued)

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of the carrying value of exploration and evaluation assets, the recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- The determination of whether an acquisition constitutes a business combination or an acquisition of assets;
- the classification / allocation of expenditures as exploration and evaluation expenditures or operating expenses; and
- the determination of the functional currency of the parent company and its subsidiaries.

Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of the Peruvian subsidiaries is the Canadian dollar.

<u>Transactions and balances:</u>

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

3. Significant accounting policies (continued)

Exploration and evaluation expenditures

Costs incurred before the Company has obtained the legal rights to explore an area are expensed as incurred.

Exploration and evaluation expenditures include the costs of acquiring licenses and costs associated with exploration and evaluation activity. Option payments are considered acquisition costs provided that the Company has the intention of exercising the underlying option.

Property option agreements are exercisable entirely at the option of the optionee. Therefore, option payments (or recoveries) are recorded when payment is made (or received) and are not accrued.

Exploration and evaluation expenditures are capitalized. The Company capitalizes costs to specific blocks of claims or areas of geological interest. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are tested for impairment if facts or circumstances indicate that impairment exists. Examples of such facts and circumstances are as follows:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

After technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the Company stops capitalizing expenditures for the applicable block of claims or geological area of interest and tests the asset for impairment. The capitalized balance, net of any impairment recognized, is then reclassified to either tangible or intangible mine development assets according to the nature of the asset.

Impairment of assets

The carrying amount of the Company's assets (which include equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

3. Significant accounting policies (continued)

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of 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 cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Income taxes

<u>Current income tax:</u>
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income (loss) or equity is recognized in other comprehensive income (loss) or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

<u>Deferred income tax:</u>
Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

3. Significant accounting policies (continued)

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The Company's equipment, which consists of office equipment, is amortized at 30%.

3. Significant accounting policies (continued)

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of restoration costs, are charged to the statement of comprehensive loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to the statement of comprehensive loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

The Company currently has no measurable restoration and environmental obligations.

4. Accounting standards issued by not yet effective

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

New standard IFRS 10 "Consolidated Financial Statements"

This new standard will replace IAS 27 "Consolidated and Separate Financial Statements", and SIC-12 "Consolidation – Special Purpose Entities". Concurrent with IFRS 10, the IASB issued IFRS 11 "Joint Ventures"; IFRS 12 "Disclosures of Involvement with Other Entities"; IAS 27 "Separate Financial Statements", which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and IAS 28 "Investments in Associates and Joint Ventures", which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee. The above consolidation standards are effective for annual periods beginning on or after January 1, 2013.

New standard IFRS 11 "Joint Arrangements"

This new standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes lAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

(Expressed in Canadian dollars)

4. Accounting standards issued by not yet effective

New standard IFRS 12 "Disclosure of Interests in Other Entities"

This new standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

New standard IFRS 13 "Fair value measurement"

This new standard replaces the fair value measurement guidance currently included in various other IFRS standards with a single definition of fair value and extensive application guidance. IFRS 13 provides guidance on how to measure fair value and does not introduce new requirements for when fair value is required or permitted. It also establishes disclosure requirements to provide users of the financial statements with more information about fair value measurements. IFRS 13 is effect for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 "Financial Instruments: Presentation"

These amendments address inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

Financial statement presentation

In June 2011, the IASB and the Financial Accounting Standards Board ("FASB") issued amendments to standards to align the presentation requirements for other comprehensive income ("OCI"). The IASB issued amendments to IAS 1 "*Presentation of Financial Statements*" to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for fiscal years beginning on or after July 1, 2012.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

5. Equipment

		Total
Cost:		
At January 1, 2011	$	48,416
Additions		11,386
At December 31, 2011		59,802
Additions		1,393
Disposals		(7,313)
At December 31, 2012	$	53,882
Amortization:		
At January 1, 2011	$	48,161
Charge for the year		1,405
At December 31, 2011		49,566
Charge for the year		1,773
Eliminated on disposal		(978)
At December 31, 2012	$	50,361
Net book value:		
At December 31, 2011	$	10,236
At December 31, 2012	$	3,521

(Expressed in Canadian dollars)

6. Exploration and evaluation assets

	Silveria	Espanola	Josefina	Silver Mountain	December 31, 2012	December 31, 2011 (Restated- Note 13)
Acquisition costs						
Balance, beginning	$ 949,524	$ 457,502	$ -	$ -	$ 1,407,026	$ 2,118,699
Additions	-	-	86,663	39,631	126,294	9,911
Impairment	-	-	-	-	-	(721,584)
	$ 949,524	$ 457,502	$ 86,663	$ 39,631	$ 1,534,320	$ 1,407,026
Exploration costs						
Balance, beginning	$ 1,925,684	$ 257,052	$ -	$ -	$ 2,182,736	$ 1,584,838
Additions	28,734	47,371	18,376	7,156	101,637	637,878
Impairment	-	-	-	-	-	(39,980)
	$ 1,954,418	$ 304,423	$ 18,376	$ 7,156	$ 2,284,373	$ 2,182,736
Total	$ 2,903,942	$ 761,925	$ 105,039	$ 46,787	$ 3,817,693	$ 3,589,762

Silveria property

The Company owns 100% of the Silveria property which consists of 195 claims in the San Mateo Mining District in the Province of Huarochiri, Peru.

During the year ended December 31, 2011, the Peruvian courts nullified the acquisition of 11 mineral concessions ("the Bella Rubia claims") and all costs capitalized on the Bella Rubia claims of $761,564 were impaired in 2011(Note 13). Management is appealing the court decision and the outcome is uncertain.

Espanola property

The Company owns 100% of the Espanola property which consists of 17 claims in the San Mateo Mining District in the Province of Canete, Peru.

Josefina and Silver Mountain properties

On March 2, 2012 the Company entered into an agreement with Lucky Minerals Inc. ("Lucky Minerals"), a Company with a director and an officer in common, to acquire all issued and outstanding shares of Upper Canyon Minerals Peru S.A.C. ("UCM"), a wholly owned subsidiary of Lucky Minerals, for $131,000. UCM owns a 100% interest in the Josefina and Silver Mountain concessions which consists 14 claims located in the Huarochiri Province of Lima, Peru (Note 9).

The transaction was accounted for as an asset acquisition. The assets acquired are as follows:

Josefina property	$ 86,663
Silver Mountain property	39,631
Cash	42
Deposits	1,575
Loan receivable	553
Office equipment	1,393
Taxes receivable	1,143
	$ 131,000

No liabilities were assumed in the transaction.

(Expressed in Canadian dollars)

7. Trade payables and accrued liabilities

		December 31, 2012		December 31, 2011
Trade payables	$	32,166	$	45,664
Accrued liabilities		52,386		61,485
	$	84,552	$	107,149

8. Share capital

Authorized share capital: An unlimited number of common shares without par value
An unlimited number of preferred shares without par value

On January 4, 2012, the Company completed a private placement of 4,500,000 units at a price of $0.10 per for gross proceeds of $450,000. Each unit consists of one common share and one share purchase warrant exercisable to purchase one additional share at $0.13 for a two year period. A fair value of $185,365 was allocated to these warrants.

On December 21, 2011, the Company completed a private placement of 1,000,000 units at a price of $0.12 per unit for gross proceeds of $120,000. Each unit is consists of one common share and one share purchase warrant exercisable to purchase one additional share at $0.16 for a two year period. A fair value of $50,119 was allocated to these warrants. Share issuance costs of $1,350 were paid.

On March 25, 2011, the Company completed a private placement of 1,050,000 units at a price of $0.40 per unit for gross proceeds of $420,000. Each unit consists of one common share and one purchase warrant exercisable to purchase one additional common share at a price of $0.47 for a period of three years. A fair value of $198,229 was allocated to these warrants. Share issuance costs of $2,100 were paid.

On January 21, 2011, the Company completed a private placement of 4,000,000 units at a price of $0.23 per unit for gross proceeds of $920,000. Each unit consists of one common share one purchase warrant exercisable to purchase one additional common share at a price of $0.31 for a period of two years. A fair value of $371,563 was allocated to these warrants. Share issuance costs of $90,387 were paid and 361,000 finders' warrants were issued. The fair value of the finders' warrants is $104,917.

The fair value of the warrants issued was estimated using the Black-Scholes option pricing model with the following assumptions:

	January 30, 2012	December 21, 2011	March 25, 2011	January 21, 2011
Expected life	2 years	2 years	3 years	2 years
Risk free interest	1.04%	1.18%	2.08%	1.71%
Volatility	133%	134%	173%	173%
Dividend yield	0%	0%	0%	0%

(Expressed in Canadian dollars)

8. Share capital (continued)

Stock options

The Company has a stock option plan whereby a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of options. The term of the stock options granted is fixed by the board of directors and is not to exceed five years. The exercise prices of the stock options granted may not be less than the minimum then specified by the rules of the TSX-V. Vesting periods are determined by the board of directors.

On April 20, 2011, the Company issued 900,000 options to directors of the Company. The options are exercisable at $0.50 for a period of five years, and were fully vested upon grant. The fair values of the options were $393,147. The fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: estimated volatility of 160%, expected life of 5 years and risk free interest rate of 2.72%.

Option transactions are summarized as follows:

	December 31, 2012		December 31, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning	1,122,000	$ 0.88	233,000	$ 2.48
Granted	-	-	900,000	0.50
Expired	(35,000)	-	(11,000)	-
Options outstanding, ending	1,087,000	$ 0.72	1,122,000	$ 0.88

At December 31, 2012, the outstanding and exercisable options as follows:

Number of options	Exercise price	Expiry date
72,000	$ 3.00	January 14, 2013
45,000	$ 1.00	August 8, 2013
45,000	$ 1.00	December 8, 2013
25,000	$ 1.00	April 20, 2014
900,000	$ 0.50	April 20, 2016
1,087,000		

The weighted average life remaining of options outstanding as at December 31, 2012 is 2.83 years.

Warrants

Warrants transactions are summarized as follows:

	December 31, 2011		December 31, 2011	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at beginning	6,411,000	$ 0.31	1,002,222	$ 1.00
Warrants issued	4,500,000	0.13	6,411,000	0.31
Warrants expired	-	-	(1,002,222)	1.00
Balance outstanding, ending	10,911,000	$ 0.24	6,411,000	$ 0.31

(Expressed in Canadian dollars)

8. Share capital (continued)

Warrants (continued)

As at December 31, 2012 the Company had outstanding warrants as follows:

Number of warrants	Exercise price	Expiry date
4,361,000	$ 0.31	January 20, 2013
1,050,000	$ 0.47	March 25, 2014
1,000,000	$ 0.16	December 21, 2013
4,500,000	$ 0.13	February 3, 2014
10,911,000		

At December 31, 2012, the weighted average life remaining of warrants outstanding is 0.68 years

Reserves

Stock option reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

Warrant reserve

The warrant reserve records the fair value of warrants issued until such time that they are exercised, at which time the corresponding amount will be transferred to share capital.

9. Related party transactions

During the year ended December 31, 2012, the Company incurred management fees of $60,000 (2011 - $Nil) to a company controlled by the Company’s Chief Executive Officer and $5,000 (2011 - $Nil) to a director of the Company, rent expense of $30,000 to a company controlled by a relative of the president of the Company (2011 – $30,000) and accounting fees of $8,880 to the Company’s Chief Financial Officer (2011 - $4,560).

During the year ended December 31, 2012, the Company acquired all issued and outstanding shares of UCM, a wholly owned subsidiary of Lucky Minerals, a Company with a director and an officer in common, for $131,000 (Note 6).

As at December 31, 2012 there was $30,000 owing to related parties (2011 - $Nil). These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

(Expressed in Canadian dollars)

10. Income taxes

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	December 31, 2012	December 31, 2011
Net loss	$ (239,908)	$ (1,461,002)
Statutory tax rate	25.0%	26.5%
Expected income tax recovery at the statutory tax rate	$ (59,977)	$ (387,166)
Non-deductible items and other	1,211	85,906
Effect of change in tax rate	(2,530)	1,586
Temporary differences not recognized	-	201,814
Change in valuation allowance	61,296	97,860
Income tax recovery	$ -	$ -

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	December 31, 2012	December 31, 2011
Non-capital losses available	$ 1,089,592	$ 1,027,963
Equipment	29,508	29,508
Exploration and evaluation assets	173,189	173,189
Valuation allowance	(1,291,956)	(1,230,660)
	$ -	$ -

The tax pools relating to these deductible temporary differences expire as follows:

	Canadian non-capital losses	Peruvian loss pools
2014	$ 76,771	$ -
2026	991,940	-
2027	1,456,801	-
2028	751,260	-
2029	207,204	-
2030	3,463	-
2031	113,417	-
2032	150,741	
No expiry	-	346,174
	$ 3,969,322	$ 346,174

(Expressed in Canadian dollars)

11. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors reviews and monitors the risk management processes. The nature of the risk exposure and management thereof is as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada and Peru. As most of the Company's cash is held by two banks there is a concentration of credit risk. However, this risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

The Company's secondary exposure to risk is on its HST receivable. This risk is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient holdings of cash and cash equivalents to meet its short-term exploration and evaluation requirements and anticipated operating cash flows.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of share and working capital.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to any externally imposed capital requirements.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	December 31, 2012	**December 31, 2011**
Cash	$ 87,276	$ 62,209

Financial liabilities included in the statement of financial position are as follows:

	December 31, 2012	**December 31, 2011**
Non-derivative financial liabilities:		
Trade payables	$ 32,166	$ 45,664
Due to related parties	30,000	-
	$ 62,166	$ 45,664

(Expressed in Canadian dollars)

11. Financial risk management (continued)

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

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 following is an analysis of the Company's financial assets measured at fair value as at December 31, 2012 and December 31, 2011:

	As at December 31, 2012		
	Level 1	**Level 2**	**Level 3**
Cash	$ 82,276	$ -	$ -

	As at December 31, 2011		
	Level 1	**Level 2**	**Level 3**
Cash	$ 62,209	$ -	$ -

12. Segmented information

The Company determines its segments by geography. The Company has operations and incurs costs associated with assets in two different geographic locations: Canada and Peru.

The Company's non-current assets are located as follows:

	As at December 31, 2012		
	Canada	**Peru**	**Total**
Equipment	$ -	$ 3,521	$ 3,521
Exploration and evaluation assets	-	3,817,693	3,817,693
	$ -	$ 3,821,214	$ 3,821,214

	As at December 31, 2011 (Restated – Note 13)		
	Canada	**Peru**	**Total**
Equipment	-	10,236	10,236
Exploration and evaluation assets	-	3,589,762	3,589,762
	$ -	$ 3,599,998	$ 3,599,998

(Expressed in Canadian dollars)

13. Restatement

During the year ended December 31, 2011, the Peruvian courts nullified the acquisition of the Bella Rubia claims and costs capitalized to the claims of $21,934 was recorded. During the year ended December 31, 2012, management became aware of acquisition costs of an additional $US700,000 ($CAD699,650) and $39,980 in exploration costs were associated with the Bella Rubia claims which were not written off in 2011.

As a result, the consolidated statement of financial position as at December 31, 2011 and the consolidated statement of comprehensive loss and cash flows for the year ended December 31, 2011 have been restated to reflect the additional write-off of the acquisition costs and exploration costs.

The following adjustments were made to the consolidated statement of financial position as at December 30, 2011:

	As previously stated	Adjustment	As restated
Exploration and evaluation assets	$ 4,329,392	$ (739,630)	$ (3,589,762)
Deficit	$ (7,812,305)	$ (739,630)	$ (8,551,935)

The following adjustment was made to the consolidated statement of comprehensive loss as at December 30, 2011:

	As previously stated	Adjustment	As restated
Exploration and evaluation asset impairment	$ (21,934)	$ (739,630)	$ (761,564)
Loss per share	$ (0.07)	$ (0.07)	$ (0.14)

The following adjustments were made to the consolidated statement of cash flow as at December 30, 2011:

	As previously stated	Adjustment	As restated
Net loss	$ (721,372)	$ (739,630)	$ (1,461,002)
Exploration and evaluation asset impairment	$ 21,934	$ 739,630	$ 761,564