LORNEX CAPITAL INC.

Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

(Expressed in Canadian Dollars)

To the Shareholders of Lornex Capital Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of Lornex Capital Inc.'s external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Board of Directors, Audit Committee and management to discuss their audit findings.

April 24, 2013

" Marc Levy "
Marc Levy, CEO

" Nilda Rivera "
Nilda Rivera, CFO

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Lornex Capital Inc.:**

We have audited the accompanying consolidated financial statements of Lornex Capital Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

We believe that the audit evidence we have obtained in our audit 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 Lornex Capital Inc. and its subsidiary as at December 31, 2012 and 2011, and the results of their financial performance and their 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 of these financial statements, which states that Lornex Capital Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast doubt about the ability of Lornex Capital Inc. to continue as a going concern.

MNP LLP

April 24, 2013
Vancouver, British Columbia

Chartered Accountants

LORNEX CAPITAL INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2012	December 31, 2011
	$	$
Assets		
Current:		
Cash and cash equivalents	925,794	1,111,857
Amounts receivable	10,136	15,664
Prepaid expenses and deposits	2,255	2,000
	938,185	1,129,521
Equipment	2,968	4,177
Exploration and evaluation assets (Note 5)	-	88,957
	941,153	1,222,655
Liabilities		
Current:		
Accounts payable and accrued liabilities	13,242	15,214
Shareholders' equity		
Share capital (Note 6)	4,197,736	4,175,770
Reserves (Note 6)	167,349	121,963
Deficit	(3,437,174)	(3,090,292)
	927,911	1,207,441
	941,153	1,222,655

Nature of Operations (Note 1)

The consolidated financial statements were approved by the Board of Directors on April 24, 2013 and were signed on its behalf by:

Marc Levy

Director

Nilda Rivera

Director

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

LORNEX CAPITAL INC.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Years Ended December 31, 2012	2011
	$	$
Administrative Expenses:		
Bank charges	305	620
Consulting fees	3,000	18,250
Depreciation	1,209	1,358
Management fees (Note 7)	64,800	64,800
Office, rent and administration (Note 7)	82,346	82,618
Professional fees (Note 7)	20,897	28,200
Regulatory fees	8,302	11,295
Share-based payments (Note 6)	52,052	26,222
Transfer agent	6,366	7,959
Travel, promotion and shareholder communication	24,936	153,641
	264,213	394,963
Loss before other item	(264,213)	(394,963)
Other items:		
Interest income	9,648	8,465
Impairment of exploration and evaluation asset	(92,317)	-
	(82,669)	8,465
Comprehensive loss for the year	(346,882)	(386,498)
Loss per common share – basic and diluted	(0.05)	(0.08)
Weighted average number of common shares outstanding – basic and diluted (Note 6(f))	7,190,116	4,973,215

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

LORNEX CAPITAL INC.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

		Share capital		Reserves			Deficit	Total shareholders' equity
	Notes	Common shares	Amount	Stock options	Warrants	Total		
		#	$	$	$	$	$	$
Balance, December 31, 2010		**4,171,912**	**3,619,811**	**111,708**	**6,666**	**118,374**	**(2,720,972)**	**1,017,213**
Comprehensive loss for the year		-	-	-	-	-	(386,498)	(386,498)
Exercise of options	6(c)	8,333	2,750	-	-	-	-	2,750
Exercise of warrants	6(c)	616,667	185,000	-	-	-	-	185,000
Share-based payments		-	-	26,222	-	26,222	-	26,222
Private placement	6(c)	2,293,750	367,000	-	-	-	-	367,000
Share issue costs		-	(4,246)	-	-	-	-	(4,246)
Fair value of stock options transferred to share capital upon exercise	6(c)	-	5,455	(5,455)	-	(5,455)	-	-
Expired options		-	-	(17,178)	-	(17,178)	17,178	-
Balance, December 31, 2011		**7,090,662**	**4,175,770**	**115,297**	**6,666**	**121,963**	**(3,090,292)**	**1,207,441**
Comprehensive loss for the year		-	-	-	-	-	(346,882)	(346,882)
Share-based payments		-	-	52,052	-	52,052	-	52,052
Private placement	6(c)	100,000	17,000	-	-	-	-	17,000
Share issue costs		-	(1,700)	-	-	-	-	(1,700)
Expired finders' warrants		-	6,666	-	(6,666)	(6,666)	-	-
Balance, December 31, 2012		**7,190,662**	**4,197,736**	**167,349**	**-**	**167,349**	**(3,437,174)**	**927,911**

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

LORNEX CAPITAL INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Years Ended December 31, 2012	2011
	$	$
Operating activities:		
Loss for the year	(346,882)	(386,498)
Adjustments for non-cash items:		
Depreciation	1,209	1,358
Share-based payments	52,052	26,222
Impairment of exploration and evaluation asset	92,317	-
Changes in non-cash working capital items:		
Amounts receivable	5,528	3,770
Prepaid expenses and deposits	(255)	4,268
Accounts payable and accrued liabilities	(1,972)	(9,041)
	(198,003)	(359,921)
Investing activities:		
Exploration and evaluation assets	(3,360)	(6,768)
Purchase of equipment	-	(1,401)
	(3,360)	(8,169)
Financing activities:		
Shares issued for cash	17,000	554,750
Share issue costs	(1,700)	(4,246)
	15,300	550,504
(Decrease) increase in cash and cash equivalents	(186,063)	182,414
Cash and cash equivalents, beginning of year	1,111,857	929,443
Cash and cash equivalents, end of year	925,794	1,111,857

Cash and cash equivalents are comprised of the following:		
Cash	6,794	361,857
Guaranteed Investment Certificates	919,000	750,000
	925,794	1,111,857

Supplemental cash flow information:		
Non-cash financing activity:		
Fair value of stock options transferred to share capital upon exercise (Note 6)	-	5,455

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

1. Nature of Operations

The Company was incorporated on July 26, 2000 under the Canada Business Corporations Act and is engaged in the acquisition, exploration and development of mineral properties in Canada. The Company's common shares are traded on the TSX Venture Exchange ("Exchange") under the symbol "LOM". On August 29, 2011, the Company consolidated its capital stock on a three-for-one-basis (Note 6(b)).

The head office, principal address and records office of the Company are located at Suite 507 – 700 West Pender Street, Vancouver, BC, Canada, V6C 1G8. The Company's registered office address is Suite 1780 - 400 Burrard Street, Vancouver, British Columbia, Canada, V6C 3A6.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The Company's ability to continue as a going concern and the recoverability of the amounts capitalized for mineral properties and related deferred exploration expenditures are dependent upon the ability of the Company to raise additional financing in order to complete the exploration and development of its resource properties, the discovery of economically recoverable reserves, the attainment of future profitable production or proceeds from disposition of the Company's resource properties. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to achieve any of the foregoing and continue as a going concern. Any adjustment required to the amounts and reclassification of assets and liabilities may be significant. At December 31, 2012, the Company had not yet achieved profitable operations and has accumulated losses of $3,437,174 (December 31, 2011- $3,090,292).

Management has estimated that the Company will have adequate funds from existing working capital to meet corporate, administrative and other obligations during the year ending December 31, 2013. The Company will require additional financing as it determines to acquire additional properties or accelerate its work programs. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms.

2. Summary of Significant Accounting Policies

The financial statements were authorized for issue on April 24, 2013, by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Basis of presentation and consolidation

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

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Rosswoll Industries Inc., incorporated in British Columbia. All significant intercompany balances and transactions were eliminated on consolidation.

The consolidated financial statements of the Company were prepared on the historical cost basis.

(b) Use of estimates and judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Summary of Significant Accounting Policies (Continued)

(b) Use of estimates and judgments (Continued)

Areas requiring a significant degree of estimation and judgment relate to the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and share-based payments and other equity-based payments and the estimated useful life and recoverability of equipment. Actual results may differ from those estimates and judgments.

(c) Functional and presentation of foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the parent. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency, both the parent and subsidiary use the Canadian dollar as their functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the end of reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences and other changes in the carrying amount of the security. Translation differences are recognised in the income statement and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets, such as investments in equity securities, classified as available-for-sale are reported as part of the fair value gain or loss and are included in equity.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, Guaranteed Investment Certificates (GICs), deposits in banks and highly liquid investments with an original maturity of three months or less. GICs have an original maturity term of more than three months and less than a year and can be withdrawn on demand.

(e) Equipment

Equipment is carried at acquisition cost less accumulated depreciation. Depreciation is determined at rates which will reduce original cost to estimated residual value over the expected useful life of each asset. The annual rate used to compute depreciation is as follows:

Computer hardware	declining-balance basis	30%
Office equipment	declining-balance basis	20%

The depreciation method, useful life and residual values are assessed annually.

Subsequent costs

The cost of replacing part of an item within property, plant and equipment is recognised when the cost is incurred if it is probable that the future economic benefits will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised as an expense as incurred.

(f) Exploration and evaluation assets

These assets relate to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are in the exploration or pre-development stage.

2. Summary of Significant Accounting Policies (Continued)

(f) Exploration and evaluation assets (Continued)

Once a right to explore a mineral property has been secured, exploration and evaluation expenditures are capitalized and include the costs of acquiring licenses, costs associated with exploration and evaluation activities, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Costs incurred before the Company has obtained the legal rights to explore a mineral property are expensed as incurred.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that mineral property are reclassified to mining property and development assets within property, plant and equipment. Upon transfer to property, plant and equipment, the relevant costs will be analyzed for impairment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net earnings as exploration and evaluation expense.

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

(g) Decommissioning obligations

The liability for a decommissioning obligation, such as site reclamation costs, is recorded when a legal or constructive obligation exists and is recognized in the period in which it is incurred. The Company records the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized decommissioning costs will be amortized to expense over the life of the related assets using the units-of-production method. The liability is accreted to reflect the passage of time and adjusted to reflect changes in the timing and amount of estimated future cash flows.

As at December 31, 2012 and 2011, the Company determined that it did not have material decommissioning obligations.

(h) Impairment of non-financial assets

The carrying amount of the Company's non-financial 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 income and comprehensive income.

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 pre-tax 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.

2. Summary of Significant Accounting Policies (Continued)

(i) Share capital

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair value on the date of issue.

(j) 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. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry.

(k) Loss per share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding by an amount that assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period in calculating the net dilution impact. Stock options and warrants are dilutive when the Company has income from continuing operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

Due to the losses for the years ended December 31, 2012 and 2011, basic loss per share was equal to dilutive loss per share for the years presented.

(l) Comprehensive loss

Comprehensive loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive loss, components of other comprehensive income are presented in the Consolidated Statements of Comprehensive Loss and the Consolidated Statements of Changes in Equity.

(m) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. 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 at amortized cost.

2. Summary of Significant Accounting Policies (Continued)

(m) Financial instruments (Continued)

(i) Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities at fair value through profit and loss are either ‘held-for-trading’ or classified at fair value through profit or loss. They are initially and subsequently recorded at fair value and changes in fair value are recognized in profit or loss for the period.

The Company does not have any financial assets and liabilities at fair value through profit and loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and such assets are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

The Company has classified its cash and cash equivalents and other receivables as loans and receivables.

(iii) Held-to-maturity

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 initially recorded at fair value and subsequently measured at amortized cost.

The Company does not hold any held-to-maturity investments.

(iv) Available-for-sale

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. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

The Company does not hold any available-for-sale assets.

(v) Financial liabilities at amortized cost

Non-derivative financial liabilities (excluding financial guarantees) are recorded at the date of obligation at fair value and are subsequently measured at amortized cost using the effective interest method.

The Company has classified its accounts payable and accrued liabilities as other liabilities.

The Company has no financial instruments that give rise to other comprehensive income. Instruments are classified as current if they are assumed to be settled within one year, otherwise, they are classified as non-current. The Company will assess at each reporting period whether there is any objective evidence that a financial asset, other than those measured at fair value, is impaired. When assessing impairment, the carrying value of financial assets carried at amortized cost is compared to the present value of estimated future cash flows, discounted using the instrument’s original effective interest rate. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in income or loss.

2. Summary of Significant Accounting Policies (Continued)

(n) Income taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the consolidated statement of comprehensive income (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current income tax

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income taxes are the taxes expected to be payable or recoverable between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred income tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

(o) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

3. New Accounting Pronouncements

The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded herein.

(a) IFRS 7, Financial Instruments: Disclosures, and IAS 32, Financial Instruments: Presentation

The IASB has issued amendment to IFRS 7, Financial Instruments: Disclosures ("IFRS 7") and IAS 32, Financial Instruments: Presentation ("IAS 32"), requiring incremental disclosures regarding transfers of financial assets and clarity of an entity's ability to offset financial assets and financial liabilities. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2013, and the amendments to IAS 32 are effective for annual periods beginning on or after July 1, 2014. The Company will apply the amendment at the beginning of its 2013 financial year. The Company does not expect the implementation to have a significant impact on the Company's disclosures.

(b) IFRS 9, Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39.

For financial assets, 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. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company does not expect the implementation to have a significant impact on the Company's results of operations, financial position, and disclosures.

(c) IFRS 10, Consolidated Financial Statements

In 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"), which replaces parts of IAS 27, Consolidated and Separate Financial Statements ("IAS 27") and all of SIC-12 Consolidation – Special Purpose Entities, changes the definition of control which is the determining factor in whether an entity should be consolidated. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on November 1, 2013.

(d) IFRS 11, Joint Arrangements

In May 2011, the IASB issued IFRS 11 which replaces IAS 31, Interest in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers, requires a venture to classify its interest in a joint operator to recognize its assets, liabilities, revenue and expenses, and/or its relative share thereof. For a joint venture, the joint venturer will account for its interest in the venture's net assets using the equity method of accounting. The choice to proportionally consolidate joint ventures is prohibited. This new standard is applicable for accounting periods beginning January 1, 2013.

(Expressed in Canadian Dollars)

3. New Accounting Pronouncements (Continued)

(e) IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement ("IFRS 13") is effective for annual periods beginning on or after January 1, 2013. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. The Company does not expect the implementation to have a significant impact on the Company's results of operations, financial position, and disclosures.

(f) IAS 1, Presentation of Items of Other Comprehensive Income

The IASB has issued an amendment to IAS 1, Presentation of Financial Statements ("IAS 1"), which requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they might at some point be reclassified from OCI to profit or loss at a later date when specified conditions are met. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer. This amendment is effective for annual periods beginning on or after July 1, 2012 and requires full retrospective application. The Company does not expect the amendment to have a material impact on the financial statements.

(g) IAS 32, Financial Instruments

Presentation was amended to address inconsistencies in current practice when applying the offsetting criteria in IAS 32. Under this amendment, the meaning of "currently has a legally enforceable right of set-off" was clarified as well as providing clarification that some gross settlement systems may be considered equivalent to net settlement. This amendment is effective for annual periods beginning on or after January 1, 2014 and is not expected to have a significant impact on the Company.

4. Property, Plant and Equipment

	Computer hardware	Office equipment	Total
	$	$	$
Costs:			
Balance, December 31, 2010	4,864	-	4,864
Additions	911	490	1,401
Disposals	-	-	-
Balance, December 31, 2011 and 2012	5,775	490	6,265
Depreciation:			
Balance, December 31, 2010	730	-	730
Charge for the year	1,309	49	1,358
Balance, December 31, 2011	2,039	49	2,088
Charge for the year	1,121	88	1,209
Balance, December 31, 2012	3,160	137	3,297
Carrying amounts:			
December 31, 2011	3,736	441	4,177
December 31, 2012	2,615	353	2,968

(Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets

Cumulative expenditures incurred by the Company on its property are summarized as follows:

	$
Balance, December 31, 2010	35,168
Exploration:	
Consulting and geological fees	47,444
Wages and contract work	3,388
Property maintenance costs	2,957
	53,789
Balance, December 31, 2011	88,957
Exploration:	
Property maintenance costs	3,360
Impairment	(92,317)
Balance, December 31, 2012	-

The Company acquired a 100% interest in the AMI claims by staking and purchase by way of the issuance of 300,000 common shares of the Company valued at $75,000 and a cash payment of $77,030. The property is subject to a 1% NSR royalty.

During the year ended December 31, 2012, certain claims have lapsed and as a result, the Company recognized a full impairment of $92,317 on the property.

6. Share Capital and Reserves

(a) Authorized

An unlimited number of common shares without par value.

(b) Issued share capital

On August 29, 2011, the Company consolidated its share capital on a 3 for 1 basis. All share and per share information contained in these consolidated financial statements reflect the post-consolidated share numbers. As at December 31, 2012, there were 7,190,622 issued and fully paid common shares (2011 - 7,090,622).

(c) Shares issuances

On January 3, 2012, the Company completed a non-brokered private placement of 100,000 units at a price of $0.17 per unit for gross proceeds of $17,000. Each unit consisted of one common share and one-half of one transferable common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of $0.25 per common share for a period of two years expiring January 3, 2014. The warrants are subject to an acceleration provision whereby if at any time from four months and one day after the closing of the financing, the closing price of the Company's common shares on the Exchange over a period of 10 consecutive trading days exceeds $0.35, the Company may, at its option, provide notice to the warrant holders that the warrants will expire on the date which is 30 calendar days after the date of such notice. The Company paid a finder’s fee of $1,700 with respect to the private placement.

(Expressed in Canadian Dollars)

6. Share Capital and Reserves (Continued)

(c) Shares issuances (Continued)

On November 8, 2011, the Company closed a non-brokered private placement of 2,293,750 units at a price of $0.16 per unit for gross proceeds of $367,000. Each unit consisted of one common share and one-half of one transferable common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of $0.25 per common share expiring November 8, 2013. The warrants are subject to an acceleration provision whereby if at any time from four months and one day after the closing of the financing, the closing price of the Company's common shares on the Exchange over a period of 10 consecutive trading days exceeds $0.35, the Company may, at its option, provide notice to the warrant holders that the warrants will expire on the date which is 30 calendar days after the date of such notice. The Company incurred regulatory expenses of $4,246 with respect to the private placement.

During the year ended December 31, 2011, 8,333 common shares of the Company were issued upon the exercise of stock options at $0.33 per share for proceeds of $2,750. As a result of this exercise, $5,455 was transferred from stock options reserve for equity settled share based transactions to share capital.

During the year ended December 31, 2011, 616,667 common shares were issued for gross proceeds of $185,000 on the exercise of 616,667 warrants at $0.30 per share.

(d) Warrants

The continuity of share purchase warrants issued and outstanding is as follows:

	Warrants	Weighted Average Exercise Price
	#	$
Balance, December 31, 2010	1,913,331	0.66
Private placement	1,146,875	0.25
Exercised	(616,667)	0.30
Expired	(716,667)	0.30
Balance, December 31, 2011	1,726,872	0.67
Private placement	50,000	0.25
Expired	(579,997) [1]	1.50
Balance, December 31, 2012	1,196,875	0.25

[1] Of these warrants, 8,886 were finders' warrants with a fair value of $6,666. During the year ended December 31, 2012, this amount was reclassified from reserves to share capital upon expiry.

Share purchase warrants outstanding at December 31, 2012 are as follows:

Warrants	Exercise Price	Expiry Date
#	$	
1,146,875	0.25	November 8, 2013
50,000	0.25	January 3, 2014

(e) Stock options

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the plan have a term not to exceed 10 years and vesting periods that range from zero to 18 months.

(Expressed in Canadian Dollars)

6. Share Capital and Reserves (Continued)

(e) Stock options (Continued)

The continuity of stock options issued and outstanding is as follows:

	Options Outstanding	Weighted Average Exercise Price
	#	$
Balance, December 31, 2010	299,000	0.43
Granted	214,000	0.21
Exercised	(8,333)	0.33
Forfeited	(33,333)	0.33
Balance, December 31, 2011	471,334	0.21
Granted	185,000	0.245
Balance, December 31, 2012	656,334	0.22

Stock options outstanding at December 31, 2012 are as follows:

Exercise Price	Options Outstanding	Expiry Date	Options Exercisable
$	#		#
0.21	117,333 [(1)]	Sept. 26, 2013	117,333
0.21	86,667 [(1)]	April 17, 2019	86,667
0.21	53,334 [(2)]	June 14, 2020	53,334
0.21	214,000	October 5, 2016	160,500
0.245	185,000	January 5, 2017	185,000
	656,334		602,834

(1) On October 31, 2011, the exercise price of these stock options was amended from $0.33 to $0.21 per share.

(2) On October 31, 2011, the exercise price of these stock options was amended from $0.90 to $0.21 per share.

The Company uses the fair value method of accounting for all share-based compensation to directors, officers, employees and consultants providing similar service. During the year ended December 31, 2012, the Company recorded share-based payments of $52,052 (2011 - $26,222) for stock options granted and vested during the year. As at December 31, 2011, the fair value of forfeited options of $17,178 was reclassified from reserves to deficit.

During the year ended December 31, 2011, the Company modified the terms of 257,335 stock options previously granted to certain directors, officers, employees and consultants of the Company. These options had original exercise prices between $0.33 and $0.90 per share with expiry dates between 2013 and 2020 and were re-priced to have an exercise price of $0.21 per share. The repricing of options resulted in the recognition of additional share-based payments of approximately $3,520 during the year ended December 31, 2012 (2011 - $1,856).

The fair values of the stock options granted were estimated on the respective grant dates using the Black-Scholes option pricing model, with the following weighted average assumptions:

(Expressed in Canadian Dollars)

6. Share Capital and Reserves (Continued)

(e) Stock options (Continued)

	2012	2011
Risk free interest rate	1.10%	0.96%
Expected dividend yield	0%	0%
Expected stock price volatility	114.50%	118%
Expected life	4.19 years	3.17 years

The weighted average fair value of options granted during the year ended December 31, 2012 was $0.19 (2011 - $0.15) per option.

(f) Loss per share

	2012	2011
	$	$
Loss per share - basic and diluted	0.05	0.08
Loss for the year	346,882	386,498
	#	#
Weighted average number of shares outstanding:		
Issued common shares, beginning of year	7,090,662	4,171,912
Options exercised	-	7,808
Warrants exercised	-	454,146
Private placement	99,454	339,349
Weighted average number of shares - basic and diluted	7,190,116	4,973,215

7. Related Party Balances and Transactions

(a) Related party transactions

The Company incurred the following transactions with companies having directors in common:

	2012	2011
	$	$
Office, rent and administration	71,500	65,200
Legal fees	782	7,609
	72,282	72,809

(b) Compensation of key management personnel

	2012	2011
	$	$
Short-term benefits - management fees	64,800	64,800
Share-based compensation	15,969	18,845
	80,769	83,645

(Expressed in Canadian Dollars)

7. Related Party Balances and Transactions (Continued)

(b) Compensation of key management personnel (Continued)

The Company's key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and consist of its Directors, Chief Executive Officer and Chief Financial Officer.

(c) Related party balances

The following related party amounts are included in prepaid expenses and deposits:

	2012	2011
	$	$
Company having directors and officers in common	2,000	2,000

8. Financial Instruments and Risk Management

(a) Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, other receivables and accounts payable and accrued liabilities. Cash and cash equivalents and other receivables are classified as loans and receivables and are carried at their amortized costs. Accounts payable and accrued liabilities are classified as other financial liabilities and are carried at their amortized cost.

The carrying values of the Company's financial assets and liabilities approximate their fair values due to the relatively short periods to maturity of these instruments. These estimates are subjective and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

	Carrying value	2012	2011	Fair value hierarchy
			$	
Financial assets				
Loans and receivables:				
Cash and cash equivalents	Amortized cost	925,794	1,111,857	N/A
Other receivables	Amortized cost	10,136	15,664	N/A
		935,930	1,127,521	
Financial liabilities				
Other financial liabilities:				
Accounts payable and accrued liabilities	Amortized cost	13,242	15,214	N/A

8. Financial Instruments and Risk Management (Continued)

(b) Financial instruments risk

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes:

(i) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances and short-term bank guaranteed investment certificates at the bank and amounts receivable. The investments are with Schedule 1 banks or equivalent, with the majority of its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. Other receivables consist of interest receivables of $6,017.

(ii) Liquidity risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at December 31, 2012, the Company had a cash balance of $925,794 to settle accounts payable and accrued liabilities of $13,242 that are considered short term and settled within 30 days. Management expects that the Company has sufficient liquidity and additional financing will be available to meet its requirements for fiscal 2013.

(iii) Market risk

a) Interest Rate Risk

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

The Company's cash attract interest at floating rates and have maturities of 90 days or less. The Company's short-term investments are invested in GICs with greater than 90 day terms but not greater than one year. These GICs have a fixed interest rate for the term of the deposit. The interest on cash and GICs is typical of Canadian banking rates, which are low at present and the conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the financial statements.

b) Commodity Price Risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company's risk relates primarily to the expected output to be produced at its mineral properties described in Note 5 to these consolidated financial statements of which production is not expected in the near future.

9. Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The management of the capital structure is based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares or debt or sell assets to settle liabilities.

(Expressed in Canadian Dollars)

9. Capital Management (Continued)

The properties in which the Company currently has an interest in are in the exploration stage, as such, the Company does not recognize revenue from its exploration properties. The Company's historical sources of capital have consisted of the sale of equity securities and interest income. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and expects to raise additional amounts externally as needed.

The Company has no debt and is not subject to externally imposed capital requirements.

There were no changes in the Company's management of capital during the year ended December 31, 2012.

10. Income Taxes

The following table reconciles the expected income tax expenses (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2012 and December 31, 2011:

	2012	2011
	$	$
Profit (loss) before income taxes	(346,882)	(386,498)
Canadian statutory tax rate	25.00%	26.50%
Expected income tax expense (recovery)	(86,721)	(102,422)
Differences resulting from:		
Non-deductible items	15,651	8,692
Change in estimates	304	1,866
Change in enacted tax rate	-	5,245
Share issuance costs	(425)	-
Increase in deferred tax assets not recognized	71,191	86,619
Provision for income taxes	-	-

Deferred tax reflects the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes. Deferred tax assets (liabilities) at December 31, 2012 and December 31, 2011 are comprised of the following:

	2012	2011
	$	$
Deferred tax assets - Canada		
Non-capital loss carry forwards	453,152	384,432
Fixed assets	8,358	8,056
Mineral property	337,623	314,544
Financing costs	7,525	11,007
	789,229	718,038
Deferred tax asset not recognized	(789,229)	(718,038)
Net deferred tax asset	-	-

(Expressed in Canadian Dollars)

10. Income Taxes (Continued)

The Company has non-capital loss carryforwards of approximately $1,742,892 (2011 – $1,537,726) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	$
2014	145,882
2015	159,744
2026	126,327
2027	45,664
2028	199,093
2029	214,600
2030	281,576
2031	363,624
2032	206,382
Total	1,742,892