NEWTON GOLD CORP.

Financial Statements

For the Year Ended December 31, 2012

(Expressed in Canadian Dollars)

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(Expressed in Canadian Dollars)

For the Year Ended December 31, 2012	Page

CHARTERED
ACCOUNTANTS
MacKay LLP

1100 – 1177 West Hastings Street
Vancouver, BC V6E 4T5
Tel: (604) 687-4511
Fax: (604) 687-5805
Toll Free: 1-800-351-0426
www.mackay.ca

mackay.ca

Independent Auditor's Report

To the Shareholders of
Newton Gold Corp.

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

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

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

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

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

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

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Newton Gold Corp. to continue as a going concern.

"MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
April 8, 2013

NEWTON GOLD CORP.

Statements of Financial Position
(Expressed in Canadian Dollars)

As at		December 31 2012		December 31 2011
Assets				
Current				
Cash	$	76,807	$	58,280
Amounts receivable		4,467		32,770
Prepaid expenses		4,997		3,536
		86,271		94,586
Non-current				
Exploration advance to joint venture partner (note 4)		-		228,644
Exploration and evaluation assets (note 4)		1,833,334		1,585,099
	$	1,919,605	$	1,908,329
Liabilities				
Current				
Accounts payable and accrued liabilities	$	95,507	$	221,298
Due to related parties (note 7)		101,300		-
Other liabilities (note 5)		-		104,928
		196,807		326,226
Shareholders' Equity				
Share capital (note 6)		11,173,347		10,750,362
Share subscriptions receivable		(9,000)		-
Reserves		498,549		526,947
Accumulated deficit		(9,940,098)		(9,695,206)
		1,722,798		1,582,103
	$	1,919,605	$	1,908,329

Nature and continuance of operations (note 1)
Commitments (note 4)
Contingent liability (note 8)
Subsequent events (note 12)

These financial statements were authorized for issue by the Board of Directors on April 8, 2013. They are signed on the Company's behalf by:

"Mark McLeary" ______________________ Director

"Ian Foreman" ______________________ Director

NEWTON GOLD CORP.

Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	For the year ended December 31 2012	December 31 2011
Expenses		
Accounting and auditing (note 7)	**$ 40,966**	$ 68,999
Consulting and management (note 7)	**206,405**	164,298
Director fees (note 7)	**6,000**	1,250
Insurance	**10,469**	10,386
Investor communications	**2,297**	49,222
Legal	**39,895**	74,151
Office and sundry	**38,530**	36,201
Regulatory and transfer agent fees	**21,323**	25,252
Share-based compensation (notes 6(d) and 7)	**44,651**	361,965
Travel and business development	**17,946**	3,472
Loss before other items	**428,482**	795,196
Other items		
Other income	**(104,931)**	(134,752)
Mining exploration tax credit disallowed	**-**	11,817
	(104,931)	(122,935)
Net and comprehensive loss for the year	**$ (323,551)**	$ (672,261)
Basic and diluted loss per share	**$ (0.01)**	$ (0.03)
Weighted average number of shares outstanding	**29,618,841**	22,405,346

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

NEWTON GOLD CORP.

Statements of Changes in Equity (Deficit)
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share Subscriptions Receivable	Reserves: Share-Based Payment Reserve	Reserves: Warrant Reserve	Reserves: Total	Deficit	Total Equity
Balance at December 31, 2010	15,444,268	$ 8,991,059	$ -	$ 139,850	$ -	$ 139,850	$ (9,210,504)	$ (79,595)
Private placement - non-flow through shares	7,290,000	1,062,200	-	-	45,800	45,800	-	1,108,000
Private placement - flow through shares	4,793,600	862,848	-	-	95,872	95,872	-	958,720
Share issuance costs - cash	-	(138,476)	-	-	-	-	-	(138,476)
Share issuance costs - agent options	-	(25,600)	-	25,600	-	25,600	-	-
Share issuance costs - agent warrants	-	(45,419)	-	-	45,419	45,419	-	-
Warrants exercised	175,000	43,750	-	-	-	-	-	43,750
Fair value of options cancelled	-	-	-	(187,559)	-	(187,559)	187,559	-
Share-based compensation	-	-	-	361,965	-	361,965	-	361,965
Loss for the year	-	-	-	-	-	-	(672,261)	(672,261)
Balance at December 31, 2011	27,702,868	$ 10,750,362	$ -	$ 339,856	$ 187,091	$ 526,947	$ (9,695,206)	$ 1,582,103
Balance at December 31, 2011	27,702,868	$ 10,750,362	$ -	$ 339,856	$ 187,091	$ 526,947	$ (9,695,206)	$ 1,582,103
Private placement - non-flow through shares	10,310,000	441,600	(9,000)	-	-	-	-	432,600
Share issuance costs - cash	-	(13,005)	-	-	-	-	-	(13,005)
Share issuance costs - agent warrants	-	(5,610)	-	-	5,610	5,610	-	-
Fair value of options cancelled	-	-	-	(78,659)	-	(78,659)	78,659	-
Share-based compensation	-	-	-	44,651	-	44,651	-	44,651
Loss for the year	-	-	-	-	-	-	(323,551)	(323,551)
Balance at December 31, 2012	**38,012,868**	**$ 11,173,347**	**$ (9,000)**	**$ 305,848**	**$ 192,701**	**$ 498,549**	**$ (9,940,098)**	**$ 1,722,798**

NEWTON GOLD CORP.

Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the year ended	
	December 31 2012	December 31 2011
Cash provided by (used for)		
Operating activities		
Net loss for the year	**$ (323,551)**	$ (672,261)
Add items not affecting cash		
Other income	**(104,928)**	(134,752)
Share-based compensation	**44,651**	361,965
	(383,828)	(445,048)
Net change in non-cash working capital	**(70,600)**	(63,898)
	(454,428)	(508,946)
Financing activities		
Due to related parties	**81,300**	-
Issuance of common shares, net of share issuance costs	**419,595**	2,211,674
	500,895	2,211,674
Investing activities		
Expenditures on exploration and evaluation assets	**(27,940)**	(1,418,739)
Exploration advance to joint venture partner	**-**	(228,644)
	(27,940)	(1,647,383)
Net increase in cash	**18,527**	55,345
Cash, beginning of the year	**58,280**	2,935
Cash, end of the year	**$ 76,807**	$ 58,280
Interest paid	**$ 2,848**	$ 4,206
Interest received	**$ 3**	$ -

Supplemental cash flow disclosure (note 10)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Newton Gold Corp. (the "Company") was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange ("TSX-V"). The Company's primary business is the acquisition and exploration of mineral properties. The Company is considered to be in the exploration stage. On February 9, 2011, the name of the Company was changed from New High Ridge Resources Inc. to Newton Gold Corp.

The Company's corporate office is located at Suite 400, 409 Granville Street, Vancouver, British Columbia V6C 1T2.

The Company is an exploration stage company with respect to its exploration and evaluation assets. Based on the information available to date, the Company has not yet determined whether its exploration and evaluation assets contain economically recoverable reserves. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development, and upon future profitable production or disposition thereof.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Further discussion of liquidity risk has been disclosed in Note 11c.

The Company does not generate cash flow from operations to fund its exploration activities, and has therefore relied upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its operations and exploration activities to the extent such instruments are issuable under terms acceptable to the Company. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. If the Company is unable to secure additional financing, repay liabilities as they come due, negotiate suitable joint venture agreements, and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used. These financial statements do not include any adjustments relating to the recovery of assets and classification of assets and liabilities that may arise should the Company be unable to continue as a going concern.

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

2. BASIS OF PREPARATION

a) Basis of preparation

These financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit and loss, which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

b) Presentation and functional currency

The presentation and functional currency of the Company is the Canadian dollar.

c) Significant accounting judgments and estimates

The preparation of these financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of these financial statements also requires management to exercise judgment in the process of applying the accounting policies.

i) Critical accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year:

(a) Impairment of exploration and evaluation assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the asset and a suitable discount rate in order to calculate present value. No impairments of exploration and evaluation assets have been recorded for the year ended December 31, 2012 (December 31, 2011 – $Nil).

(b) Share-based compensation

Management is required to make certain estimates when determining the fair value of stock options awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's statement of comprehensive loss. For the year ended December 31, 2012, the Company recognized $44,651 (December 31, 2011 - $361,965) share-based compensation expense.

2. BASIS OF PREPARATION (continued)

c) Significant accounting judgments and estimates (continued)

ii) Critical judgments used in applying accounting policies

In the preparation of these financial statements, management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

(a) Exploration and evaluation assets

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its exploration and evaluation assets. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from exploration and evaluation assets and subject to different accounting treatment. As at December 31, 2011 and December 31, 2012, management had determined that no reclassification of mineral properties was required.

(b) Income taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the annual financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial assets and financial liabilities are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. The Company does not have any derivative financial instruments.

i) Financial assets

The Company classifies its financial assets into categories at initial recognition, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value, with changes in fair value recognized in profit or loss. The Company has not classified any financial assets as fair value through profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

i) Financial assets (continued)

(b) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Cash is classified as loans and receivables.

(c) Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss. The Company has not classified any financial assets as held-to-maturity investments.

(d) Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income or loss ("OCI"). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from OCI and recognized in profit or loss. The Company has not classified any financial assets as available-for-sale.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

ii) Financial liabilities (continued)

(a) Fair value through profit or loss

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value, with changes in fair value recognized in the statement of comprehensive loss. The Company has not classified any financial liabilities as fair value through profit and loss.

(b) Other financial liabilities

This category includes accounts payable and accrued liabilities, amounts due to related parties, and other liabilities, which are recognized at amortized cost.

b) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position is comprised of cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash and subject to insignificant interest or credit risk.

c) Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in mineral properties; accordingly, it follows the practice of capitalizing all costs, once it has the legal right to explore, relating to the acquisition of, exploration for, and development of mineral claims, and crediting all proceeds received against the cost of the related claims. Such costs include, but are not exclusive to geological, geophysical studies, exploratory drilling, and sampling.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves.

The aggregate costs related to abandoned mineral claims are charged to net income (loss) at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to an exploration and evaluation asset is subsequently reversed if new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Exploration and evaluation assets (continued)

If the Company recognizes net income (loss) costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount, then the Company recognizes this as a gain on sale of mineral rights.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditures are not expected to be recovered, they will be charged to profit or loss.

d) Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

e) Foreign currency translation

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency gains and losses are reported on a net basis and included in profit or loss.

f) Joint venture accounting

Certain of the Company's exploration and evaluation asset activities are conducted with others; accordingly, the accounts reflect only the Company's proportionate interest in such activities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Share capital

i) Common shares

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

ii) Equity units

Proceeds received on the issuance of units, comprised of common shares and warrants, are allocated on the residual value method; proceeds are allocated to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the reserve for warrants.

iii) Flow-through shares

The Company will from time to time issue flow-through common shares to finance its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax benefit of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into: i) share capital, equal to the market value of the shares; ii) a flow-through share premium liability, equal to the estimated premium, if any, investors pay for the flow-through feature; and iii) reserve for warrants, equal to the remaining proceeds received.

When qualifying expenses are incurred, the Company recognizes a deferred tax liability and deferred tax expense for the value of the tax benefit renounced to the shareholders. The Company also derecognizes the liability on the flow-through share premium, as other income.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian exploration expenses (as defined in the Income Tax Act). The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as unspent commitment/other liability (liability on flow-through share premium).

h) Share-based payment transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Share-based payment transactions (continued)

Where share options are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

i) Equity reserves

Where share options or warrants expire or are cancelled, the fair value previously recognized is transferred from the equity reserve to accumulated deficit.

j) Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Rehabilitation provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

l) Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

m) Segment reporting

The Company operates in a single reportable segment being the acquisition, exploration, and development of exploration and evaluation assets.

n) New accounting standards and interpretations not yet adopted

The following accounting pronouncements have been released but have not yet been adopted by the Company:

i) IFRS 9 Financial Instruments

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

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. The standard also adds guidance on the classification and measurement of financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) New accounting standards and interpretations not yet adopted (continued)

i) IFRS 9 Financial Instruments (continued)

Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company's financial statements.

ii) IFRS 10 Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements (IFRS 10). IFRS 10, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 10 replaces Standing Interpretations Committee 12 Consolidation – Special Purpose Entities (SIC 12) and IAS 27 Consolidated and Separate Financial Statements (IAS 27). IFRS 10 eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. The standard provides guidance on how to apply the control principles in a number of situations, including agency relationships and holding potential voting rights.

Management has determined that the adoption of IFRS 10 is not expected to impact the Company's financial statements as it does not have any subsidiaries at this time.

iii) IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities (IFRS 12). IFRS 12, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 12 outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

Management has determined that the adoption of IFRS 12 is not expected to impact the Company's financial statements as it does not have any subsidiaries at this time.

iv) IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value, and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement.

Management has determined that the adoption of IFRS 13 is not expected to impact the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) New accounting standards and interpretations not yet adopted (continued)

v) Other

In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to revise the way in which other comprehensive income is presented. The Company does not believe the changes resulting from the amended standard will have an impact on its financial statements. The amended standard is effective for annual periods beginning on or after July 1, 2012.

In June 2011, the IASB issued amendments to IAS 19 Employee Benefits, with revised requirements for pensions and other postretirement benefits, termination benefits, and other changes. The Company does not believe the changes resulting from these amendments are relevant to its financial statements. The amended standard is effective for annual periods beginning on or after January 1, 2013.

In May 2011, the IASB issued IFRS 11 Joint Arrangements, in addition to IFRS 10 and IFRS 12 as discussed above. The Company does not believe the changes resulting from this new standard are relevant to its financial statements. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.

In October 2011, the IASB issued IFRIC 20 Stripping Costs in the production phase of a surface mine. The Company does not believe the changes resulting from this new standard are relevant to its financial statements. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

In January 2013, the IASB issued amendments to IAS 27 Separate Financial Statements, which aligns the new consolidation guidance prescribed in IFRS 10, Consolidated Financial Statements, as it applies to investments in subsidiaries, joint ventures, and associates when an entity either elects or is required by local regulations to prepare separate financial statements in accordance with IFRS.

In January 2013, the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures, which was amended as a consequence of the issue of IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; and IFRS 12, Disclosure of Interests in Other Entities. IAS 28 provides the accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

(Expressed in Canadian Dollars)

4. EXPLORATION AND EVALUATION ASSETS

The Company had accumulated the following acquisition and exploration expenditures:

	Chuchi	Newton Hill	Sibley Road	Total
Balance at December 31, 2010	$ 21,261	$ 5,000	$ -	$ 26,261
Acquisition costs	40,000	-	-	40,000
Balance at December 31, 2011	61,261	5,000	-	66,261
Acquisition costs	-	-	40,000	40,000
Balance at December 31, 2012	**$ 61,261**	**$ 5,000**	**$ 40,000**	**$ 106,261**

	Chuchi	Newton Hill	Sibley Road	Total
Balance at December 31, 2010	$ 19,275	$ -	$ -	$ 19,275
Assessment, property, and permit fees	-	15,956	-	15,956
Boarding, lodging, and travel	431	10,113	-	10,544
Consulting	25,160	-	-	25,160
Drilling	-	313,696	-	313,696
Environmental	-	7,697	-	7,697
Office and administration	6,087	25,600	-	31,687
Other	-	684,550	-	684,550
Samples, analysis, and review	16,265	39,750	-	56,015
Site services and supplies	99,778	65,439	-	165,217
Socio-economic/native liason	-	10,800	-	10,800
Wages, geological and site	-	178,242	-	178,242
Balance at December 31, 2011	166,996	1,351,843	-	1,518,839
Assessment, property, and permit fees	6,543	15	-	6,558
Boarding, lodging, and travel	-	2,101	-	2,101
Drilling	-	110,838	-	110,838
Environmental	-	1,707	-	1,707
Office and administration	82	2,517	-	2,599
Samples, analysis, and review	492	27,983	-	28,475
Site services and supplies	(28,350)	49,004	-	20,654
Socio-economic/native liason	-	903	-	903
Staking	824	-	-	824
Wages, geological and site	-	33,575	-	33,575
Balance at December 31, 2012	**$ 146,587**	**$ 1,580,486**	**$ -**	**$ 1,727,073**

	Chuchi	Newton Hill	Sibley Road	Total
At December 31, 2011	$ 228,257	$ 1,356,843	$ -	$ 1,585,100
At December 31, 2012	**$ 207,848**	**$ 1,585,486**	**$ 40,000**	**$ 1,833,334**

4. EXPLORATION AND EVALUATION ASSETS (continued)

a) Chuchi Property

The Company owns a 100% interest in certain mineral claims located in the Omineca Mining Division of British Columbia, referred to as the Chuchi Property.

In December 2008 the Company wrote down the recorded cost of the property to $Nil. As at December 31, 2012, mineral property interests represent accumulated costs incurred on the property since January 1, 2009.

b) Newton Property

On August 12, 2009, the Company entered into an agreement with Amarc Resources Ltd. ("Amarc") by which Amarc was granted an option to acquire an 80% interest in the Newton property. Under the terms of the agreement, Amarc paid $60,000 to the underlying Newton property owners and agreed to expend a total of $4,940,000 on the property in exploration expenditures over seven years.

Amarc earned an 80% interest in the Newton property and outlying area of interest under the option agreement by funding $5,000,000 in exploration activities. On May 16, 2011 the Company and Amarc entered into a Joint Venture Agreement to further explore the Newton property.

The Company held a 20% participating interest in certain mineral claims located in the Clinton Mining Division of British Columbia, referred to as the Newton Property. Certain claims within the property were subject to a 2% NSR. The NSR could have been purchased at any time by the Company for $2,000,000. Under the agreement with Amarc Resources Ltd. ("Amarc") outlined below, Amarc could cause the Company to exercise its option to purchase the NSR and the Company would be required to pay its proportionate share of the purchase price, namely $400,000 to retain its 20% residual interest in the royalty. If the Company's interest in the Joint Venture is reduced to 10%, or less, then the Company's interest will be converted to a 5% net profit interest.

Effective May 22, 2012, the Company exercised its right to convert its 20% participating interest to a 5% net profits interest in the Newton Joint Venture. As such, the Company has no ongoing financial obligations regarding this property.

As at December 31, 2012, the Company advanced $1,585,486 (December 31, 2011 – $1,356,843) to Amarc Resources Ltd., of which $1,580,486 (December 31, 2011 - $1,351,843) was utilized for exploration expenditures.

c) Sibley Road Property

On October 11, 2012, the Company signed the Letter of Intent to acquire an option to purchase up to a 100% interest in the Sibley Road property located in Halifax County, Nova Scotia.

The Company has agreed to a two stage option. To exercise the First Option and earn a 50% interest in the property, Newton shall pay Sibley $150,000 and incur a total of $12,000,000 in expenditures within four years as follows:

(Expressed in Canadian Dollars)

4. EXPLORATION AND EVALUATION ASSETS (continued)

c) Sibley Road Property (continued)

- pay $40,000 (paid) on signing of the Letter of Intent;
- pay $110,000 within 24 hours of receiving the conditional acceptance of the agreement by the TSX Venture Exchange;
- incur $2,000,000 in expenditures by the first anniversary date of the agreement for Phase I exploration work;
- incur a further $3,000,000 in expenditures by the second anniversary date of the agreement for Phase II exploration work;
- incur a further $3,000,000 in expenditures by the third anniversary date of the agreement for Phase III exploration work; and
- incur a further $4,000,000 in expenditures by the fourth anniversary date of the agreement for Phase IV exploration work.

After exercising the First Option, the Company will have 90 days to deliver notice of its intention to exercise the Second Option. In order to exercise the Second Option and earn an undivided 100% interest in the property, the Company will, within two business days of delivering the Second Option Notice, issue common shares to the Optionor with a value of $12,000,000 at a price per common share equal to the volume weighted average closing price over the 20 trading days preceding the delivery of the Second Option Notice.

5. OTHER LIABILITIES

Other liabilities consist of the liability portion of flow-through shares issued by the Company during the year ended December 31, 2011 and 2012:

Balance at December 31, 2010	$	-
Flow-through share premium liability recognized on share issue		239,680
Settlement of flow-through share liability on qualifying expenditures		(134,752)
Balance at December 31, 2011		104,928
Settlement of flow-through share liability on qualifying expenditures		(104,928)
Balance at December 31, 2012	**$**	**-**

On July 21, 2011, the Company closed the first tranche of a private placement, and issued 3,200,000 flow-through shares at a price of $0.25 per flow-through share for aggregate gross proceeds of $800,000 (Note 6a).

On September 8, 2011, the Company closed the second tranche of a private placement, and issued 880,000 flow-through shares at a price of $0.25 per flow-through share for aggregate gross proceeds of $220,000 (Note 6a).

On November 18, 2011, the Company closed the third tranche of a private placement, and issued 473,600 flow-through shares at a price of $0.25 per flow-through share for aggregate gross proceeds of $118,400 (Note 6a).

(Expressed in Canadian Dollars)

5. OTHER LIABILITIES (continued)

On November 25, 2011, the Company closed the fourth tranche of a private placement, and issued 240,000 flow-through shares at a price of $0.25 per flow-through share for aggregate gross proceeds of $60,000 (Note 6a).

The Company was committed to incur a total of $1,198,400 in qualifying exploration expenditures pursuant to the private placements in which flow-through shares were issued during the year ended December 31, 2011. Upon further review of the expenditures incurred that year, the Company reversed its estimate of the liability portion of the flow-through shares issued as management determined that a total of $1,198,400 in qualifying exploration expenditures were incurred.

6. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value

Issued:

	Number	Issue Price	Amount
Balance at December 31, 2010	15,444,268	-	$ 8,991,059
Private placement - non-flow-through shares	7,290,000	0.200	1,062,200
Private placement - flow-through shares	4,793,600	0.250	862,848
Share issuance costs - cash	-	-	(138,476)
Share issuance costs - agent options	-	-	(25,600)
Share issuance costs - agent warrants	-	-	(45,419)
Warrants exercised	175,000	0.250	43,750
Balance at December 31, 2011	27,702,868	-	10,750,362
Private placement - non-flow-through shares	10,310,000	0.043	441,600
Share issuance costs - cash	-	-	(13,005)
Share issuance costs - agent warrants	-	-	(5,610)
Balance at December 31, 2012	**38,012,868**	**-**	**$ 11,173,347**

On January 28, 2011, the Company closed a non-brokered private placement of 5,000,000 units at $0.13 per unit. Each unit consisted of one common share and one warrant of the Company. Each warrant is exercisable to purchase one common share of the Company until January 28, 2013 at $0.20 per share for the first year and at $0.30 during the second year. As the issue price of each unit was less than the market price of the Company's shares on the day of announcement, the full issue price was allocated to common shares.

6. **SHARE CAPITAL** (continued)

a) **Common shares** (continued)

On July 7, 2011, the Company announced the commencement of a non-brokered private placement offering of up to 8,500,000 units consisting of 6,000,000 flow-through units at a price of $0.25 per flow-through unit and 2,500,000 non-flow-through units at a price of $0.20 per non-flow-through unit for gross proceeds of $2,000,000. Each flow-through unit consisted of one common flow-through share and one non-flow-through share purchase warrant of the issuer. Each warrant entitles the holder, on exercise, to purchase one additional common share of the Company for a period of two years from the date of issue of the warrant. The warrants will be exercisable at a price of $0.40 per share for the first year and at a price of $0.50 per share for the second year. The Company is concurrently offering units consisting of one common share and one share purchase warrant of the Company. Each Warrant entitles the holder, on exercise, to purchase one additional common share of the Company for a period of two years from the date of issue of the warrant. The warrants are exercisable at a price of $0.30 per share for the first year and $0.40 per share for the second year.

On July 21, 2011, the Company closed the first tranche of the private placement announced July 7, 2011 and issued 3,200,000 flow-through units at $0.25 per unit for gross proceeds of $800,000. $576,000 of the proceeds was allocated to share capital, $160,000 was recognized as a flow-through-share-premium liability (Note 5), and $64,000 was allocated to the reserve for warrants.

On September 8, 2011, the Company closed the second tranche of the private placement and issued 880,000 flow-through units at $0.25 per unit and 525,000 non-flow-through units at $0.20 per unit for gross proceeds of $220,000 and $105,000 respectively. Of the gross proceeds received for flow-through units, $158,400 was allocated to share capital, $44,000 to flow-through share premium liability (Note 5), and $17,600 to the reserve for warrants. Of the gross proceeds received for non-flow-through units, $94,500 was allocated to share capital and $10,500 to the reserve for warrants.

On November 18, 2011, the Company closed the third tranche of the private placement and issued 473,600 flow-through units at $0.25 per unit and 1,265,000 non-flow-through units at $0.20 per unit for gross proceeds of $118,400 and $253,000 respectively. Of the gross proceeds received for flow-through units, $85,248 was allocated to share capital, $23,680 to flow-through share premium liability (Note 5), and $9,472 to the reserve for warrants. Of the gross proceeds received for non-flow-through units, $227,700 was allocated to share capital and $25,300 for the reserve for warrants.

On November 25, 2011, the Company completed the fourth and final tranche of the private placement and issued 240,000 flow-through units at $0.25 per unit and 500,000 non-flow-through units at $.20 per unit, receiving gross proceeds of $60,000 and, $100,000 respectively. Of the gross proceeds received for flow-through units, $43,200 was allocated to share capital, $12,000 to flow-through share premium liability (Note 5) and $4,800 to the reserve for warrants. Of the gross proceeds received for non-flow-through units, $90,000 was allocated to share capital and $10,000 to the reserve for warrants. $4,000 in finder's fees was paid during the fourth tranche.

During the year ended December 31, 2011, the Company incurred cash share issuance costs of $138,476 comprising of finders' fees of $89,912, and legal and regulatory fees of $48,564; and incurred non-cash share issuance costs of $25,600 with respect to 256,000 agent options to purchase units and $45,419 with respect to 256,848 agent warrants issued to the finder in connection with the offering.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

a) Common shares (continued)

On February 17, 2012, the Company issued 1,260,000 units at $0.135 per unit for gross proceeds of $170,100. Each unit consists of one common share and one share purchase warrant of the Company. Each warrant is exercisable to purchase one common share of the Company until February 17, 2014 at $0.30 per share for the first year and at $0.40 per share for the second year. The full issue price was allocated to common shares.

On November 28, 2012, the Company issued 9,050,000 units at $0.03 per unit for gross proceeds of $271,500. Each unit consists of one common share and one share purchase warrant of the Company. Each warrant is exercisable to purchase one common share of the Company until November 28, 2013 at $0.05 per share. The Company paid $13,005 and issued 423,500 agent warrants (Note 6c) as finders' fees in connection with the sale of these units. The full issue price was allocated to common shares.

b) Warrants outstanding

	Number of Warrants		Weighted Average Exercise Price
Balance at December 31, 2010	6,250,000	$	0.28
Warrants issued	12,083,600		0.30
Warrants exercised	(175,000)		0.25
Warrants expired	(6,075,000)		0.28
Balance at December 31, 2011	12,083,600		0.30
Warrants issued	10,310,000		0.04
Balance at December 31, 2012	**22,393,600**	**$**	**0.25**

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

b) Warrants outstanding (continued)

Expiry Date	Number of Warrants		Exercise Price
July 21, 2013	3,200,000	$	0.50
September 8, 2013	25,000		0.40
September 8, 2013	880,000		0.50
September 9, 2013	500,000		0.40
November 18, 2013	1,265,000		0.40
November 18, 2013	473,600		0.50
November 25, 2013	500,000		0.40
November 25, 2013	240,000		0.50
February 17, 2014	1,260,000		0.30/$0.40
November 28, 2013	9,050,000		0.05
January 28, 2015 (1)	5,000,000		0.30
	22,393,600	**$**	**0.25**

(1) On December 14, 2012 the TSX Venture Exchanged consented to the extension date of 5,000,000 warrants that originally expire on January 28, 2013 to January 28, 2015.

c) Agent warrants outstanding

	Number of Agent Options		Weighted Average Exercise Price
Balance at December 31, 2010	-	$	-
Agent warrants issued	256,848		0.34
Balance at December 31, 2011	256,848		0.34
Agent warrants issued	423,500		0.05
Balance at December 31, 2012	**680,348**	**$**	**0.16**

Expiry Date	Number of Options Outstanding		Exercise Price
January 28, 2013	163,760	$	0.30
September 8, 2013	2,000		0.40
September 8, 2013	6,400		0.50
November 18, 2013	78,800		0.40
November 18, 2013	5,888		0.50
November 28, 2013	423,500		0.05
	680,348	**$**	**0.16**

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

c) Agent warrants outstanding (continued)

During the year ended December 31, 2011, 256,848 agent warrants were granted to acquire 256,848 common shares of the Company at an average exercise price of $0.45 per share for two years. These agent warrants have a fair value, calculated using the Black-Scholes option pricing model, of $45,419 or $0.18 per option, assuming an average risk-free interest rate of 1.52%, an average expected dividend rate of 0.00%, and an average expected annual volatility coefficient of 126.00%.

On November 28, 2012, 423,500 agent warrants were granted to acquire 423,500 common shares of the Company at an exercise price of $0.05 per share for one year. These agent warrants have a fair value, calculated using the Black-Scholes option pricing model, of $5,610 or $0.01 per option, assuming an expected life of one year, a risk-free interest rate of 1.09%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 153%.

d) Stock options outstanding

On May 24, 2012, the Company's Share Option Plan was approved. Under this plan, the Company may grant options to directors, officers, employees, and consultants, provided that the maximum number of options that are outstanding at any time shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less applicable discount. The options may be granted for a maximum of ten years and vesting is determined by the Board of Directors.

	Number of Options		Weighted Average Exercise Price
Balance at December 31, 2010	660,000	$	0.170
Options granted	2,140,000		0.220
Options expired/cancelled	(1,050,000)		0.220
Balance at December 31, 2011	1,750,000		0.200
Options granted	800,000		0.100
Options expired/cancelled	(900,000)		0.130
Balance at December 31, 2012	**1,650,000**	**$**	**0.180**

Grant Date	Expiry Date	Number of Options Outstanding		Exercise Price
January 4, 2011	January 4, 2016	800,000	$	0.175
Ocrtober 24, 2011	October 24, 2016	800,000		0.200
March 22, 2012	March 21, 2017	50,000		0.100
		1,650,000	**$**	**0.180**

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

d) Stock options outstanding (continued)

During the year ended December 31, 2011, 2,140,000 stock options were granted to directors, officers, and consultants of the Company to acquire 2,140,000 shares of the Company at an average exercise price of $0.22 per share for a period of five years. These options have a fair value, calculated using the Black-Scholes option pricing model, of $361,965 or $0.17 per option, assuming an expected life of five years, an average risk-free interest rate of 2.16%, an average expected dividend rate of 0.00%, and an average expected annual volatility coefficient of 134.00%.

On March 22, 2012, 700,000 stock options were granted to consultants of the Company to acquire 700,000 shares of the Company at an exercise price of $0.10 per share for a period of one year. These options have a fair value, calculated using the Black-Scholes option pricing model, of $38,315 or $0.05 per option, assuming an expected life of one year, a risk-free interest rate of 1.24%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 105.00%.

On March 22, 2012, 100,000 stock options were granted to consultants of the Company to acquire 100,000 shares of the Company at an exercise price of $0.10 per share for a period of five years. These options have a fair value, calculated using the Black-Scholes option pricing model, of $6,335 or $0.06 per option, assuming an expected life of five years, a risk-free interest rate of 1.67%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 121%.

e) Agent options outstanding

	Number of Agent Options	Weighted Average Exercise Price
Balance at December 31, 2010	-	$ -
Agent options granted	256,000	0.25
Balance at December 31, 2011 and 2012	**256,000**	**$ 0.25**

Grant Date	Expiry Date	Number of Options Outstanding	Exercise Price
July 21, 2011	July 21, 2013	256,000	$ 0.25
		256,000	**$ 0.25**

On July 21, 2011, 256,000 agent options were granted to an agent of the Company to acquire 256,000 units of the Company at an exercise price of $0.25 per unit for a period of two years. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable to purchase one common share of the Company until July 21, 2013 at $0.40 per share for the first year and at $0.50 per share for the second year. These options have a fair value, calculated using the Black-Scholes option pricing model, of $25,600 or $0.10 per option, assuming an expected life of two years, a risk-free interest rate of 1.56%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 150.00%.

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS

The Company has identified the directors and senior officers as key management personnel. The following table lists the compensation costs paid directly or to companies controlled by key management personnel for the year ended December 31, 2012 and 2011:

	Accounting	Consulting	Director Fees	Share-Based Compensation	December 31, 2012 Total
Ann Fehr	$ -	$ -	$ -	$ -	$ -
Fehr and Associates	14,289	-	-	-	14,289
Foremost Geological Consulting	-	42,000	-	-	42,000
Laara Shaffer	-	835	-	3,168	4,003
Lindsay Bottomer	-	1,250	6,000	-	7,250
Mark McLeary	-	-	-	-	-
McLeary Capital Management, Inc.	-	78,000	-	-	78,000
T. St. Denis, Inc.	15,240	-	-	-	15,240
Tracey St. Denis	-	-	-	-	-
Timeline Filing Services Ltd.	-	12,000	-	-	12,000
Tom Kordyback	-	-	-	-	-
	$ 29,529	$ 134,085	$ 6,000	$ 3,168	$ 172,782

	Accounting	Consulting	Director Fees	Share-Based Compensation	December 31, 2011 Total
Ann Fehr	$ -	$ -	$ -	$ 23,375	$ 23,375
Fehr and Associates	40,522	-	-	-	40,522
Foremost Geological Consulting	-	42,000	-	-	42,000
Ian Foreman	-	-	-	48,077	48,077
Lindsay Bottomer	-	1,000	1,250	64,000	66,250
Mark McLeary	-	-	-	48,077	48,077
McLeary Capital Management, Inc.	-	78,000	-	-	78,000
Michael Johnson	-	24,515	-	103,887	128,402
Michael Withrow	-	4,000	-	-	4,000
Timeline Filing Services Ltd.	-	3,000	-	-	3,000
Tom Kordyback	-	-	-	64,000	64,000
	$ 40,522	$ 152,515	$ 1,250	$ 351,416	$ 545,703

McLeary Capital Management, Inc. is a private company owned by the President and CEO, Mark McLeary. Mark McLeary was granted 400,000 stock options on January 4, 2011 with a fair value $48,077.

7. RELATED PARTY TRANSACTIONS (continued)

On January 28, 2011 the Company entered into an indefinite term contract with McLeary Capital Management, Inc. (the "consultant"), for the consultant to continue to act as President and Chief Executive Officer and Director of the Company. A monthly consulting fee of $6,500 is payable to the consultant. The contract may be cancelled by either party on 30 days written notice and, if cancelled by the Company, by payment of an amount equivalent to two years annual salary. On termination of the contract the consultant will be immediately retained by the Company as a non-paid advisor/consultant to the Company until January 5, 2016 or for such time as the consultant still holds unexercised stock options in the Company. On exercise of the consultant's options, the relationship between the consultant and the Company will cease. At December 31, 2012, $43,680 (December 31, 2011 - $Nil) due to McLeary Capital Management Inc. was included in the amount due to related parties.

Foremost Geological Consulting is a private business owned by a director, Ian Foreman. Ian Foreman was granted 400,000 stock options on January 4, 2011 with a fair value $48,077.

On January 28, 2011 the Company entered into an indefinite term contract with Foremost Geological Consulting (the "consultant"), for the consultant to continue to act as primary technical consultant and Director of the Company. A monthly consulting fee of $3,500 is payable to the consultant. The contract may be cancelled by either party on 30 days written notice and, if cancelled by the Company, by payment of an amount equivalent to two years annual salary. On termination of the contract the consultant will be immediately retained by the Company as a non-paid advisor/consultant to the Company until January 5, 2016 or for such time as the consultant still holds unexercised stock options in the Company. On exercise of the consultant's options, the relationship between the consultant and the Company will cease. At December 31, 2012, $23,520 (December 31, 2011 - $Nil) due to Foremost Geological Consulting was included in the amount due to related parties.

Foremost Management Services is a private business owned by a director, Ian Foreman. Certain directors and officers of the Company receive extended health benefits via Foremost Management Services. At December 31, 2012, $1,478 (December 31, 2011 - $Nil) due to Foremost Management Services was included in the amount due to related parties.

Fehr and Associates is a private accounting firm owned by the former Chief Financial Officer, Ann Fehr. Fehr and Associates provided accounting services to the Company. Ann Fehr was granted 90,000 stock options on January 28, 2011 with a fair value of $23,375. These options have been cancelled.

T. St. Denis, Inc. is a private accounting firm owned by the current Chief Financial Officer, Tracey A. St. Denis. T. St. Denis, Inc. provides accounting services to the Company.

Timeline Filing Services Ltd. is a private company owned by the corporate secretary, Laara Shaffer. Timeline Filing Services Ltd. provides corporate secretary services to the Company. Laara Shaffer was granted 50,000 stock options on March 22, 2012 with a fair value of $3,168.

Lindsay Bottomer is a director of the Company and receives consulting and director fees. During the year ended December 31, 2011, Mr. Bottomer was granted 400,000 stock options with a fair value of $64,000. At December 31, 2012, $6,160 (December 31, 2011 - $2,520) due to Mr. Bottomer was included in accounts payable and accrued liabilities.

Tom Kordyback is a director of the Company. During the year ended December 31, 2011, Mr. Kordyback was granted 400,000 stock options with a fair value of $64,000.

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS (continued)

Michael Johnson is a former director of the Company. During the year ended December 31, 2011, Mr. Johnson was granted 400,000 stock options with a fair value of $103,887. These options have been cancelled.

8. CONTINGENT LIABILITY

On May 18, 2011, the Company received an order granted by a court in Lima, Peru indicating that the Company is responsible for a debt of US$209,403 incurred by a former subsidiary of the Company. The Company did not receive notice of the Peruvian legal proceedings and is seeking advice concerning an application to set aside the order. The Company's Peruvian legal counsel advised that the Company is not responsible for this obligation. No amounts have been recorded in the Company's books and records regarding this issue.

9. INCOME TAXES

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

		December 31 2012		December 31 2011
Loss before income taxes	**$**	**(323,551)**	$	(672,261)
Statutory Canadian corporate tax rate		**25.00%**		26.50%
Income tax recovery at statutory rates	**$**	**(80,888)**	$	(178,149)
Items not recognized for tax purposes		**(14,134)**		60,629
Adjustments to deferred tax assets and liabilities for substantively enacted changes in tax laws and rates		**-**		6,652
Tax benefits not recognized		**95,022**		110,868
	$	**-**	$	-

(Expressed in Canadian Dollars)

9. INCOME TAXES (continued)

The significant components of the Company's deferred income tax assets are as follows:

	December 31 2012	December 31 2011
Deferred income tax assets		
Mineral property	**$ 277,578**	$ 277,578
Share issuance costs	**32,060**	54,409
Net capital losses available	**371,706**	371,706
Non-capital losses available for future years	**1,308,174**	1,186,149
	1,989,518	1,889,842
Tax benefits not recognized	**(1,989,518)**	(1,889,842)
	$ -	$ -

At December 31, 2012 the Company has non-capital tax losses of approximately $5,233,000 available for carry-forward to reduce future years' income taxes, expiring as follows:

Expiry Date	Amount
2014	$ 22,000
2015	87,000
2026	526,000
2027	1,165,000
2028	1,296,000
2029	500,000
2030	564,000
2031	584,000
2032	489,000
	$ 5,233,000

The Company also has capital losses of approximately $2,974,000 available to reduce future years' income taxes.

Future tax benefits, which may arise as a result of applying these deductions to taxable income, have not been recognized in these accounts.

(Expressed in Canadian Dollars)

9. INCOME TAXES (continued)

The Company will from time to time issue flow-through common shares to finance its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax benefit of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into: i) share capital, equal to the market value of the shares; ii) a flow-through share premium liability, equal to the estimated premium, if any, investors pay for the flow-through feature; and iii) reserve for warrants, equal to the remaining proceeds received.

When qualifying expenses are incurred, the Company recognizes a deferred tax liability and deferred tax expense for the value of the tax benefit renounced to the shareholders. The Company also derecognizes the liability on the flow-through share premium, as other income.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian exploration expenses (as defined in the Income Tax Act). The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as unspent commitment/other liability (liability on flow-through share premium).

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Lookback Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities during the years ended December 31, 2012 and 2011 were as follows:

	December 31 2012	December 31 2011
Agent options issued for share costs	**$ -**	$ 25,600
Agent warrants issued for share costs	**$ 5,610**	$ 45,419
Fair value of stock options cancelled	**$ 78,659**	$ 187,559
Shares issued for share subscription receivable	**$ 9,000**	$ -

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The carrying values of cash and accounts payable and accrued liabilities approximate their carrying values due to the immediate or short-term nature of these instruments.

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Financial risk management

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

i) 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. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. The Company's financial assets are not subject to material financial risks.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and with property exploration and development. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at December 31, 2012 and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. The Company will need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof.

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period.

iii) Market risk

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

(a) Interest rate risk

Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity. The Company is not exposed to interest rate price risk as it does not have any cash and cash equivalents at December 31, 2012 which bear interest.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Financial risk management (continued)

iii) Market risk (continued)

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not exposed to foreign currency risk to the extent that all monetary assets and liabilities are denominated in Canadian currency.

(c) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, warrants, reserves, and deficit. The availability of new capital will depend on many factors including a positive mineral exploration environment, positive stock market conditions, the Company's track record, and the experience of management. The Company is not subject to any external covenants on its capital.

12. SUBSEQUENT EVENTS

Effective January 1, 2013, the Company entered into an agreement with Foremost Management Services Inc., a company owned jointly by two directors of the Company, Mark McLeary and Ian Foreman. The agreement provides for Foremost Management Services Inc. to earn an administration fee calculated as 10% of all incurred monthly expenses in exchange for managing the affairs of the Company.

On January 8, 2013, 250,000 stock options were granted to a consultant at a price of $0.10 for a period of one year.

On January 28, 2013, 163,760 agent warrants expired with an exercise price of $0.30 per share.