Weststar Resources Corp.

Condensed Interim Financial Statements

Nine months Ended September 30, 2012
(Unaudited)

Expressed in Canadian Dollars

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor Manning Elliott Chartered Accountants has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

November 29, 2012

WESTSTAR RESOURCES CORP.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

	Notes		September 30, 2012		December 31, 2011 (audited)
Assets					
Current assets					
Cash		$	-	$	253,792
Amounts receivable	4		35,190		37,562
Prepaid expenses and deposits			15,829		53,196
			51,019		344,550
Non-current assets					
Investments	5		18,000		155,659
Property and equipment	6		-		24,956
Exploration and evaluation assets	7		7,579,935		7,424,142
Total assets		**$**	**7,648,954**	**$**	**7,949,307**
Liabilities and shareholders' equity					
Liabilities					
Current liabilities					
Cheques issued in excess of funds on deposit	8		15,256		-
Accounts payable and accrued liabilities	9	$	199,878	$	24,730
Total liabilities			215,134		24,730
Shareholders' equity					
Share capital	10		13,196,621		13,196,621
Reserve	11		3,876,883		3,730,184
Deficit			(9,657,684)		(9,157,887)
Accumulated other comprehensive income			18,000		155,659
Total equity			7,433,820		7,924,577
Total liabilities and shareholders' equity		**$**	**7,648,954**	**$**	**7,949,307**

Nature of operations and going concern uncertainty (Note 1)

Approved by the Board of Directors

"Keith Anderson " Director *"William Rascan" Director*

Keith Anderson William Rascan

The accompanying notes are an integral part of these financial statements

WESTSTAR RESOURCES CORP.

CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

	Notes	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Expenses					
Amortization		$ -	$ 2,035	$ 3,545	$ 6,106
Bank charges and interest		183	828	717	1,075
Consulting fees	9	24,000	80,064	121,750	149,070
General exploration costs		-	-	-	1,125
Management and director's fees	9	28,500	20,000	91,379	90,000
Office and general		3,552	11,105	30,566	85,355
Pre-exploration costs		-	-	-	-
Professional fees	9	3,728	65,231	68,811	157,754
Rent		3,080	9,964	23,830	33,422
Shareholder communications		-	13,166	10,413	86,191
Share-based payment		146,699	-	146,699	-
Transfer agent and filing fees		1,715	5,726	13,000	78,135
Travel		-	6,661	1,085	61,561
Net loss from operations		211,457	214,780	511,795	749,794
Other income (expense)					
Realized gain on available-for-sale investments		1,275	-	3,410	-
Gain on sale of equipment		-	-	8,588	-
Write-down of exploration and evaluation assets	8	-	-	-	(139,500)
Total other income (expense)		1,275	-	11,998	(139,500)
Net loss for the period		210,182	214,780	499,797	889,294
Other comprehensive loss item					
Unrealized loss on available-for-sale investments		19,360	-	137,659	-
Total comprehensive loss for the period		229,542	214,780	637,456	889,294
Net loss per share, basic and diluted		$ 0.01	$ 0.01	$ 0.02	$ 0.06
Weighted average number of shares outstanding		24,133,492	15,319,699	24,133,492	15,319,699

The accompanying notes are an integral part of these financial statements

WESTSTAR RESOURCES CORP.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Number of shares issued	Share capital	Share-based payment reserve	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, January 1, 2011	10,509,092	$ 5,838,044	$ 2,885,863	$ -	$ (5,844,771)	$ 2,879,136
Comprehensive loss:						
Loss for the period	-	-	-	-	(889,294)	(889,294)
Other comprehensive income (loss)	-	-	-	-	-	-
Shares issued - private placement	2,464,400	1,485,946	546,152	-	-	2,032,098
Shares issued - exploration and evaluation assets	8,150,000	5,138,500	-	-	-	5,138,500
Warrants exercised	2,010,000	613,882	(151,582)	-	-	462,300
Share subscription	-	-	-	-	-	-
Balance, September 30, 2011	23,133,492	$ 13,076,372	$ 3,280,433	$ -	$ (6,734,065)	$ 9,622,740
Balance, January 1, 2012	24,133,492	13,196,621	3,730,184	155,659	(9,157,887)	7,924,577
Comprehensive loss:						
Loss for the period	-	-	-	-	(499,797)	(499,797)
Other comprehensive loss	-	-	-	(137,659)	-	(137,659)
Options granted	-	-	146,699	-	-	146,699
Balance, September 30, 2012	24,133,492	$ 13,196,621	$ 3,876,883	$ 18,000	$ (9,657,684)	$ 7,433,820

The accompanying notes are an integral part of these financial statements

WESTSTAR RESOURCES CORP.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	September 30, 2012	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Cash provided by (used for):				
Operating activities				
Net loss from operations	(210,182)	$ (214,780)	$ (499,797)	$ (889,294)
Adjustments to reconcile loss to net cash used in				
Amortization	-	2,035	3,545	6,106
Share-based payment	146,699	-	146,699	-
Realized gain on available-for-sale investments	(1,275)	-	(3,410)	-
Gain on sale of equipment	-	-	(8,588)	-
Write-down of exploration and evaluation assets	-	-	-	139,500
	(64,758)	(212,745)	(361,551)	(743,688)
Changes in non-cash working capital				
Amounts receivable	(7,313)	37,015	2,372	(7,046)
Prepaid expenses and deposits	791	-	37,367	(5,000)
Accounts payable and accrued liabilities	53,683	(17,641)	175,148	(52,840)
Net cash used in operating activities	(17,597)	(193,371)	(146,664)	(808,574)
Investing activities				
Acquisition of exploration and evaluation assets	-	(700,000)	-	(735,000)
Proceeds from investments	1,275	-	3,410	-
Purchase of equipment	-	(2,476)	-	(2,276)
Proceeds from sale of equipment	-	-	29,999	-
Deferred exploration costs and evaluation costs	-	(50,075)	(155,793)	(77,885)
Net cash received (used) in investing activities	1,275	(752,551)	(122,384)	(815,161)
Financing activities				
Share subscriptions	-	(86,580)	-	-
Shares issued for cash, net of issuance costs	-	2,032,098	-	2,494,398
Net cash provided by financing activities	-	1,945,518	-	2,494,398
Increase (decrease) in cash	(16,322)	999,596	(269,048)	870,663
Cash, beginning of the period	1,066	147,263	253,792	276,196
Cash (deficiency), end of the period	$ (15,256)	$ 1,146,859	$ (15,256)	$ 1,146,859

Additional cash flow information (Note 15)

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Weststar Resources Corp. (the "Company") is a Vancouver, British Columbia based company listed on the TSX Venture Exchange (the "Exchange"). The Company was incorporated on October 27, 2004 in the Province of British Columbia. During the year ended December 31, 2006, the Company completed its initial public offering on the Exchange, and the Company's shares were listed for trading on September 22, 2006.

The principal address of the Company is located at suite 2606 – 400 Capilano Road, Port Moody, British Columbia, Canada, V3H 0E1.

Going concern uncertainty

To date, the Company has not generated revenue from operations. As at September 30, 2012, the Company has net working capital deficiency of $164,115 (December 31, 2011, net working capital - $319,820) and a deficit of $9,657,684 (December 31, 2011 - $9,157,887). The Company incurred a comprehensive loss of $637,456 during the nine months ended September 30, 2012 (2011 - $889,294). Until the Company attains profitability, it will be necessary to raise additional financings for general working capital and for exploration costs on its property. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the future success of the business could be adversely affected. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

These financial statements have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The financial statements do not include any adjustments to assets and liabilities should the Company be unable to continue as a going concern. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses, and the statement of financial position classifications used. Such adjustments could be material.

2. BASIS OF PRESENTATION

Statement of compliance

The condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

The condensed interim financial statements of the Company should be read in conjunction with the Company's 2011 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The condensed interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2011 annual financial statements.

2. BASIS OF PRESENTATION (continued)

Approval of the unaudited condensed interim financial statements

The unaudited condensed interim financial statements ("financial statements") of the Company for the nine months ended September 30, 2012, were authorized for issue on November 29, 2012 by the Board of Directors of the Company.

Basis of preparation

The financial statements are presented in Canadian dollars, which is also the Company's functional currency. The unaudited financial statements of the Company have been prepared on an accrual basis except for cash flow information and are based on historical costs, except for certain financial instruments, which are stated at their fair values.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Significant estimates made in the preparation of these financial statements include the recoverability of the carrying value of exploration and evaluation assets, accrued liabilities, assumptions for the determination of fair value of share-based payments, provisions for reclamation costs and recoverability of deferred tax assets, . Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in Note 3 to the audited financial statements for the year ended December 31, 2011.

Accounting standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting years beginning after January 1, 2013 or later years. None of these are expected to have a significant effect on the financial statements. The following standards and interpretations have been issued but are not yet effective:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards, amendments and interpretations not yet effective (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The standard is effective for annual periods beginning on or after January 1, 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. AMOUNTS RECEIVABLE

Amounts receivable at September 30, 2012 includes guaranteed investment certificates ("GICs") with interest rates at 1% (December 31, 2011 - 1%) per annum. At September 30, 2012, the fair value of the GICs was $5,000 (December 31, 2011 - $5,000). The GICs are held as resource reclamation deposits and are restricted for other uses. The remaining balance represents HST recoverable of $26,078 (December 31, 2011 - $32,562) and a receivable from the disposal of office and computer equipment of $4,112 (December 31, 2011 – $Nil).

(Expressed in Canadian dollars - unaudited)

5. INVESTMENTS

The Company received 500,000 common shares of Canada Coal Inc. ("CCK") after the disposition of exploration and evaluation assets during the year ended December 31, 2010. The 500,000 common shares are subject to escrow and are released on a staged basis, with 10% released on February 29, 2012, and 15% to be released every six months thereafter for a period of 36 months. As at September 30, 2012, 375,000 common shares were held in escrow (December 31, 2011 – 500,000).

During the nine months ended September 30, 2012, the Company sold 50,000 common shares of CCK for proceeds of $3,410. At September 30, 2012, the fair value of the remaining 450,000 common shares of CCK held was $18,000, and an unrealized loss of $137,659 was recorded in other comprehensive loss for the nine months ended September 30, 2012.

During the nine months ended September 30, 2011, there were no common shares of CCK sold. As at December 31, 2011, the fair value of the 500,000 CCK shares held was estimated to be $155,659. The Company recorded the investment as available-for-sale. As a result, an unrealized gain of $155,659 was recorded in other comprehensive income for the year ended December 31, 2011.

6. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Equipment	Leasehold Improvement	Total
Cost				
Balance at January 1, 2011	$ 10,085	$ 24,311	$ 4,475	$ 38,871
Additions	2,475	2,456	-	4,931
Disposals	-	(200)	-	(200)
Balance at December 31, 2011	12,560	26,567	4,475	43,602
Disposals	(12,560)	(26,567)	-	(39,127)
Balance at September 30, 2012	$ -	$ -	$ 4,475	$ 4,475
Amortization and disposals				
Balance at January 1, 2011	$ 3,979	$ 2,776	$ 1,897	$ 8,652
Amortization	4,720	4,758	516	9,994
Balance at December 31, 2011	8,699	7,534	2,413	18,646
Amortization	952	531	2,062	3,545
Disposals	(9,651)	(8,065)	-	(17,716)
Balance at September 30, 2012	$ -	$ -	$ 4,475	$ 4,475
Net book value at September 30, 2012	$ -	$ -	$ -	$ -

7. EXPLORATION AND EVALUATION ASSETS

Axe Project

Pursuant to an option agreement dated July 19, 2005, the Company acquired a 70% interest (originally 66% but amended by mutual consent) in the Axe claims comprised of 119 units situated in the Similkameen Mining District, Province of B.C. As consideration for the property, the Company paid $5,000, issued 300,000 common shares at a fair value of $243,500 and incurred exploration costs of $500,000.

Pursuant to an agreement dated March 23, 2007, the Company acquired four additional claims. As consideration for the claims the Company paid $15,000. The claims are subject to a 2% net smelter royalty and under the terms of the agreement the Company has the right to purchase the net smelter royalty in stages for up to $3,000,000.

On March 21, 2012 the Company entered into an option agreement with Xstrata Copper Canada ("Xstrata") and Bearclaw Capital Corp. ("Bearclaw"). Under the terms of the option agreement, the Company and Bearclaw have agreed to grant Xstrata an option to earn a 51% interest where Xstrata will have the sole and exclusive right to carry out exploration activities on and evaluate the Axe Property. In order to exercise the option, during the earn-in period, Xstrata must incur $3,000,000 of expenditures in exploration activities on the Axe Property.

During the earn-in period, Xstrata must pay to the Company and Bearclaw (collectively, in proportion to their participating interests in the Axe Property, which are 70% for the Company and 30% for Bearclaw):

- $25,000 immediately (received);
- $25,000 on March 31, 2013;
- $30,000 on March 31, 2014;
- $40,000 on March 31, 2015; and
- $60,000 on March 31, 2016.

If Xstrata exercises the option, the Company, Bearclaw and Xstrata will enter into a formal joint venture agreement. Xstrata will be the initial operator holding a 51% participating interest and the Company and Bearclaw a 34.3% and 14.7% participating interest respectively.

Upon exercise of the option, Xstrata will have the option to acquire an additional 24% undivided interest in the Axe Property (increasing its interest to 75%, absent other adjustments) by either completing a feasibility study on the Axe Property or incurring no less than $15,000,000 in feasibility study expenditures on the Axe Property and providing the Company and Bearclaw with evidence of such expenditures. In the event Xstrata exercises the second option and acquires an undivided 75% interest in the Axe Property, the Company and Bearclaw will have a 17.5% and 7.5% participating interest respectively.

Under the option agreement the Company and Bearclaw have also granted Xstrata a right of first refusal ("ROFR") over any direct or indirect sale or transfer by the Company and/or Bearclaw of any of their respective interest in the Axe Property. The ROFR will terminate at the end of the earn-in period if Xstrata has not exercised the option.

7. EXPLORATION AND EVALUATION ASSETS (continued)

Golden Fox Group

Golden Fox Claims

On July 7, 2009 and amended on December 22, 2010, relating to the work commitment described below, the Company entered into an agreement to acquire an undivided 100% interest in the "Golden Fox Claims", located in the Yukon Territories, Canada. The Golden Fox Claims consist of 50 claim units totalling approximately 2,500 hectares

The terms of the agreement were as follows:

- $75,000 due on signing of the agreement; (paid)
- $75,000 ($50,000 paid) and the issuance of 2,500,000 common shares of the Company (issued at a fair value of $225,000); and
- Issuance of 500,000 common shares of the Company in lieu of a $500,000 exploration expenditure work commitment originally to be incurred by September 1, 2010 (issued at a fair value of $200,000).

The vendor retained a 3% Net Smelter Royalty ("NSR"), of which one-third (1%) could have been purchased by the Company for $1,000,000.

Sunrise Claims

On January 20, 2011 the Company entered into an option agreement to acquire a 100% interest in 27 quartz claims totalling approximately 121.5 hectares in the Dawson Mining District in the Yukon Territory ("the Sunrise Property"). The Golden Fox Claims are situated 20km to the southeast.

The terms of the agreement were as follows:

- $35,000 due within five days of approval by the Exchange (paid);
- Issuance of 1,000,000 common shares of the Company (issued at a fair value of $360,000);
- Issuance of 1,000,000 common shares of the Company within six months after approval by the Exchange (issued at a fair value of $700,000).
- Incur exploration expenditures of $10,000 or pay $100 per claim on or before June 18, 2011 (incurred);
- Incur exploration expenditures of $25,000 on or before September 1, 2011; and
- Incur exploration expenditures of $100,000 on or before September 1, 2012.

The vendor retained a 3% NSR, of which one-third (1%) could have been purchased by the Company for $1,000,000.

During the year ended December 31, 2011, the Company decided not to pursue the Golden Fox Group and impaired acquisition and exploration costs of $1,744,474.

7. EXPLORATION AND EVALUATION ASSETS (continued)

McKinnon Group

McKinnon Claims

On July 20, 2009 the Company entered into an agreement to acquire a 100% interest in the McKinnon Property, located in Yukon Territory. The property consists of 66 pending quartz claims encompassing approximately 3,400 acres (1380 hectares).

The terms of the agreement were as follows:

- $84,100 due on signing of the agreement (paid);
- $50,000 (paid); and
- Issuance of 2,500,000 common shares of the Company (issued at a fair value of $275,000).

The vendor retained a 3% NSR, of which one-third (1%) could have been purchased by the Company for $1,000,000.

Morgan Property

On May 12, 2010, the Company entered into an option agreement to acquire a 100% interest in the Morgan Claim Group. The claims are north of the McKinnon Claims in the Yukon.

The terms of the agreement were as follows:

- Upon approval of the agreement by the Exchange, $5,000 (paid) and issuance of 500,000 common shares (issued at a fair value of $15,000);
- $5,000 and 500,000 common shares on or before June 15, 2011; and
- $5,000 and 500,000 common shares on or before June 15, 2012.

The vendor retained a 2% NSR, of which one-half (1%) could have been purchased by the Company for $1,000,000.

During the year ended December 31, 2011, the Company decided not to pursue both the McKinnon Claims and the Morgan Property and impaired acquisition and exploration costs of $460,519.

Sifton Property

On July 6, 2010 the Company entered into an acquisition agreement to acquire a 100% interest in the Sifton block of claims. The claims are north of Richardson Township, which is approximately fifty kilometres northwest of Fort Frances in western Ontario. The Company paid a finder's fee of $4,500.

7. EXPLORATION AND EVALUATION ASSETS (continued)

Sifton Property (continued)

Payments under the terms of the agreement were as follows:

- $25,000 on or before October 6, 2010 (paid);
- Issuance of 3,000,000 shares within 10 days of Exchange approval (issued at a fair value of $90,000);
- $30,000 on or before July 6, 2011;
- $35,000 on or before July 6, 2012;
- $40,000 on or before July 6, 2013; and
- $45,000 on or before July 6, 2014.

The vendor retained a 2% NSR, of which one-half (1%) could have been purchased by the Company for $1,000,000.

During the year ended December 31, 2011, the Company decided not to pursue this property and impaired acquisition and exploration costs of $119,500.

Acquisition of La Paloma Property and Assignment of Option Agreement

On March 17, 2011, and as amended June 30, 2011, the Company entered into a letter of intent with Lekona Minerals Incorporated ("Lekona") to acquire the rights, title and interest in and to the La Paloma concessions, including the 20% undivided interest held by Lekona, and Lekona's rights under the underlying option agreement between Lekona and Minera Sierra de Oro S.A. de C.V. ("Minera"). The La Paloma property concession is located in the state of Jalisco, Mexico and comprises 155 hectares of mineral rights. The Company was assigned an option to acquire an 80% interest in the La Paloma concessions from Minera under an option agreement dated September 15, 2010 and amended April 30, 2011, between Lekona and Minera. Lekona had previously exercised a portion of the option granted under the option agreement, and accordingly the Company now owns a 20% undivided interest in the La Paloma concessions. The Company completed the transaction on August 9, 2011.

The terms of the agreement and the amounts owing are as follows:

- $700,000 to Lekona (paid);
- Issuance of 4,000,000 common shares of the Company to Lekona's shareholders (fair value of $2,521,592);
- Issuance of 1,650,000 common shares of the Company to Minera (fair value of $1,007,157); and

7. EXPLORATION AND EVALUATION ASSETS (continued)

Acquisition of La Paloma Property and Assignment of Option Agreement (continued)

- Issuance of 1,500,000 share purchase warrants to Lekona (issued at a fair value of $449,751), each such warrant being exercisable into one common share of the Company at a price of $1.50 per common share for a period expiring August 9, 2012. The warrants are only exercisable in the event that:
    i. The Company completes Phase I of the work program contained in the NI 43-101 report dated June 26, 2011 on the project and delivers a new NI 43-101 compliant report describing the results of the Phase I work, and accommodation to proceed to Phase 2; and
    ii. The Company completes a follow on financing of not less than $1,000,000 to fund the Phase 2 program.

Once the financing is complete (the “Completion Date”), the following additional payments would be required:

- Issuance of 2,000,000 common shares of the Company to Lekona's shareholders within 10 business days of the Completion Date; and
- $1,100,000 on or before August 9, 2012 to or to the direction of Lekona.

The Company would also be required to assume the unfulfilled obligations of Lekona under Lekona’s previous option agreement, including the payments of cash and shares due to Minera. Lekona would retain a 2% NSR.

The Option Agreement between Lekona and Minera provided for the following payments:

In order for Lekona to acquire an undivided 20% interest in La Paloma:

- $50,000 non-refundable deposit (paid by Lekona);
- $300,000 (paid by Lekona); and
- Issuance of 2,000,000 common shares of Lekona (issued).

As a result, Lekona acquired an undivided 20% interest in La Paloma.

In order for Lekona to acquire a further 20% interest in La Paloma (for an aggregate of 40%):

- $300,000 on or before April 30, 2011 (paid by Lekona);
- Upon closing of the transaction between the Company and Lekona, the issuance of 1,650,000 common shares (issued at a fair value of $1,007,157) in the capital stock of the Company and the expenditure on or before October 30, 2011 of $200,000 (incurred) on or in respect of the property. In consideration for the foregoing, the Company shall acquire a further 20% interest in the La Paloma concessions, for an aggregate 40% interest;

7. EXPLORATION AND EVALUATION ASSETS (continued)

Acquisition of La Paloma Property and Assignment of Option Agreement (continued)

- On or before October 30, 2011, a further payment of $400,000 (paid) and the issuance of 1,000,000 common shares (issued at a fair value of $470,000) of the Company. In addition, a further $250,000 is to be expended on or in respect of the property and a National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") level report is to be generated. In consideration of the foregoing, the Company shall acquire a further 20% interest in the Project, for an aggregate 60% interest in the property; and
- On or before October 30, 2012, a final payment of $2,000,000, the issuance of an additional 2,000,000 shares in the capital stock of the Company and the expenditure of a further $750,000 on or in respect of the property. In consideration of the foregoing, the Company shall acquire a further 20% interest in the property, for an aggregate 80% interest.

In addition to the foregoing, in the event that the Company receives a NI 43-101 compliant report, acceptable to both parties, indicating that there are resources of gold and silver in the project exceeding 4,000,000 ounces and 150,000,000 ounces, respectively, the Company shall deliver to or to the order of Minera 5,000,000 common shares of the Company. The NI 43-101 shall be undertaken and paid for by the Company on or prior to October 31, 2014, or within 12 months following the Company acquiring the 80% undivided interest in the project, which ever event occurs first.

(Expressed in Canadian dollars - unaudited)

7. EXPLORATION AND EVALUATION ASSETS (continued)

	Canada	Mexico	
	Axe Property	**La Paloma**	**Total**
Balance, December 31, 2011	**$ 1,637,895**	**$ 5,786,247**	**$ 7,424,142**
Acquisition costs			
Cash	-	5,000	5,000
Total acquisition costs	-	5,000	5,000
Exploration costs			
Geological consulting fees	-	168,293	168,293
Option agreement	(17,500)	-	(17,500)
Total deferred exploration costs	(17,500)	168,293	150,793
Balance, September 30, 2012	**$ 1,620,395**	**$ 5,959,540**	**$ 7,579,935**

(Expressed in Canadian dollars - unaudited)

7. EXPLORATION AND EVALUATION ASSETS (continued)

	Canada	Canada	Canada	Canada	Mexico	
	Axe Property	**Golden Fox Group**	**McKinnon Group**	**Sifton**	**La Paloma**	**Total**
Balance, December 31, 2010	**$ 1,626,465**	**$ 412,849**	**$ 460,519**	**$ 119,500**	**$ -**	**$ 2,619,333**
Acquisition costs						
Cash	-	35,000	-	-	1,100,000	1,135,000
Share	-	1,260,000	-	-	4,448,500	5,708,500
Total acquisition costs	-	1,295,000	-	-	5,548,500	6,843,500
Exploration costs						
Geological consulting fees	11,430	36,625	-	-	237,747	285,802
Total deferred exploration costs	11,430	36,625	-	-	237,747	285,802
Impairment charge	-	(1,744,474)	(460,519)	(119,500)	-	(2,324,493)
Balance, December 31, 2011	**$ 1,637,895**	**$ -**	**$ -**	**$ -**	**$ 5,786,247**	**$ 7,424,142**

(Expressed in Canadian dollars - unaudited)

8. CHEQUES ISSUED IN EXCESS OF FUNDS ON DEPOSIT

At nine months ended September 30, 2012, the Company's current liabilities include cheques issued in excess of funds on deposit of $15,256 due to timing differences between deposits and cheques being issued. The Company does not have credit facilities to draw upon.

9. RELATED PARTY TRANSACTIONS

Key management personnel compensation for the nine months ended September 30, 2012 and 2011 is as follows:

		2012		2011
Management and director fees	$	91,379	$	90,000
Consulting fees		50,000		54,000
Deferred exploration		25,000		39,000
Accounting fees		37,500		40,000
Group medical expense for management		7,804		-
Total Key Management Compensation	$	211,683	$	223,000
Rent recovery		(20,750)		-
Total related party transactions	$	190,933	$	223,000

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and in certain cases, by signed agreements. These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

As at September 30, 2012 accounts payable and accrued liabilities included $120,946 (December 31, 2011 - $590) due to companies controlled by directors and officers and former directors and officers. The amounts due are non-interest bearing, unsecured and are with no stated terms of repayment.

Due to related parties

		September 30, 2012		September 30, 2011
Amount due to a former director for managment fees	$	22,400	$	590
Amount due to a former director for consulting fees		22,400		-
Amount due to a director for deferred exploration fees		13,440		-
Amount due to a former director for accounting fees		25,200		-
Amount due to a company with directors in common		37,506		-
	$	120,946	$	590

10. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

Issued share capital

At September 30, 2012 and December 31, 2011, there were 24,133,492 common shares issued and outstanding.

During the nine months ended September 30, 2012, there were no share capital transactions.

During the nine months ended September 30, 2011, the following share capital transactions occurred:

(a) 500,000 common shares valued at $200,000 were issued for in lieu of a $500,000 work commitment on the Golden Fox Property (note 7);

(b) 2,000,000 common shares valued at $1,040,000 were issued as acquisition on the Sunrise Claims (note 7);

(c) 5,650,000 common shares valued at $3,898,500 were issued as acquisition on the La Paloma Claims (note 7);

(d) 2,010,000 warrants were exercised at prices of $0.18 to $0.25 per warrant for total proceeds of $613,882. The weighted average share price at the dates of exercise was $0.23 per share.

(e) 2,464,400 units were issued in a non-brokered private placement at a price of $0.90 per unit. Each unit consists of one common share and one-half of one transferable share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share at a price of $1.50 until July 5, 2012. The fair value of the share purchase warrants was $462,374 and was allocated to reserves. The Company paid finder's fees comprising of $174,556 and 193,952 finder's warrants. Each finder's warrant entitles the holder to acquire an additional common share of the Company at a price of $1.50 until July 5, 2012. The fair value of the finders's warrants was $83,778 and was included in reverses. Additional share issuances costs paid on the private placement were $11,306.

Basic and diluted loss per share

Diluted loss per share did not include the effect of 2,031,250 share options and 2,847,200 warrants as the effect would be anti-dilutive.

(Expressed in Canadian dollars - unaudited)

10. SHARE CAPITAL (continued)

Share options

The Company has adopted a share option plan pursuant to which the Board of Directors of the Company may, from time to time, in its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and consultants of the Company, 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 at the time of grant and exercisable for a period of up to 10 years from the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised within 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, employment or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

On July 9, 2012, the Company granted 2,000,000 share options to its directors and consultants exercisable at a price of $0.15 per common share. The options are fully vested and exercisable upon grant and expire on July 9, 2017 unless otherwise terminated earlier.

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its share options granted with the following assumptions: risk-free interest rate of 1.14%; expected dividend yield of zero; expected share price volatility of 166.29%; and expected life of 5 years. The Company used historical volatility to estimate the volatility of the share price. The grant date fair value of each option was $0.07. Accordingly, $146,699 was recognized as share-based payment expense during the nine months ended September 30, 2012.

The changes in share options during the nine months ended September 30, 2012 and the year ended December 31, 2011 are as follows:

	For the nine months ended September 30, 2012	**Weighted Average Exercise Price**	For the year ended December 31, 2011	Weighted Average Exercise Price
Balance, beginning of period	56,252	$1.73	160,420	$1.60
Activities during the period				
Granted	2,000,000	0.15	-	-
Expired	-	-	(104,168)	1.52
Cancelled	(25,002)	1.73	-	-
Balance, end of period	2,031,250	$0.17	56,252	$1.73

(Expressed in Canadian dollars - unaudited)

10. SHARE CAPITAL (continued)

Share options (continued)

The following table summarizes information about share options outstanding at September 30, 2012:

Exercise price	Number outstanding / exercisable	Weighted average remaining contractual life (years)	Expiry date
$1.68	18,750	0.89	August 22, 2013
$1.80	12,500	1.04	October 15, 2013
$0.15	2,000,000	4.78	July 9, 2017
	2,031,250	4.72	

Warrants

The changes in warrants during the nine months ended September 30, 2012 and the year ended December 31, 2011 are as follows:

	For the nine months ended September 30, 2012	Weighted Average Exercise Price	For the year ended December 31, 2011	Weighted Average Exercise Price
Balance at beginning of period	5,097,819	$1.06	5,887,163	$0.82
Warrants issued	-	-	1,426,152	1.5
Warrants issued	-	-	1,500,000	1.5
Warrants exercised	-	-	(2,010,000)	0.23
Warrants expired	(2,250,619)	1.43	(1,705,496)	1.79
Balance at end of period	2,847,200	$0.54	5,097,819	$1.06

A summary of warrants outstanding at September 30, 2012 is as follows:

Number of warrants	Exercise price	Expiry date	Weighted average remaining contractual life (years)
1,615,000	$0.23	October 27, 2012	0.076
1,232,200	$0.94	July 5, 2013	0.781
2,847,200	$0.54		0.381

On June 1, 2012, the Company amended the terms of 1,232,200 outstanding share purchase warrants that were issued on July 5, 2011 by extending the expiry date from July 5, 2012 to July 5, 2013. The exercise price of the 1,232,200 warrants changed from $1.50 to $0.94. The incremental value created by extending and re-pricing the warrants was determined to be nominal. Accordingly, no value has been recorded.

(Expressed in Canadian dollars - unaudited)

10. SHARE CAPITAL (continued)

Warrants (continued)

Subsequent to nine months ended September 30, 2012, the following warrants expired unexercised:

- 1,615,000 share purchase warrants with an October 27, 2012 expiry date.

11. RESERVE

The share-based payment reserve records items recognized as share-based payment expense until such time that the share options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire or are cancelled unexercised, the related amount remains in the reserve account.

The fair value of the common shares issued in the private placement was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded in the reserve. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in the reserve account.

Details of the transactions in the reserve account are as follows:

Balance, December 31, 2010	$	2,885,863
Fair value of warrants issued		546,152
Fair value of warrants issued for La Paloma property		449,751
Fair value of exercised warrants		(151,582)
Balance, December 31, 2011	$	3,730,184
Fair value of options granted		146,699
Balance, September 30, 2012	$	3,876,883

The Company used the Black-Scholes option pricing model to calculate the fair value of warrants issued as finders' fees and as payment on exploration and evaluation assets. Changes in assumptions can materially affect estimates of fair values. For purposes of the calculation, the following weighted-average assumptions were used:

	2012	2011
Volatility percentage	166%	180%
Risk-free interest rate	1.14%	1.02%
Dividend yield	-	-
Expected life (years)	5.00	1.07

The Company used historical volatility to estimate the volatility of the share price.

12. FINANCIAL INSTRUMENTS

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

All of the Company's financial liabilities have contractual maturities of 30 days or due on receipt and are subject to normal trade terms.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and GICs held with the bank. The Company considers this risk to be immaterial.

Fair value

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

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

(Expressed in Canadian dollars - unaudited)

12. FINANCIAL INSTRUMENTS (continued)

Fair value (continued)

The Company's financial assets and liabilities are measured at fair value by level with the fair value hierarchy described above. Assets and liabilities are classified entirely based on the lowest level of input that is significant to the fair value measurement.

The fair values of the Company's cash deficiency, amounts receivable and accounts payable and accrued liabilities approximates the carrying amounts due to the short term nature of these instruments.

As at September 30, 2012 and December 31, 2011, the Company's financial instruments measured at fair value using the hierarchy are as follows:

	September 30, 2012				**December 31, 2011**			
Assets	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investments	$ 18,000	-	-	$ 18,000	$ 155,659	-	-	$ 155,659

13. CAPITAL MANAGEMENT

The Company considers its capital structure to include shareholders' equity and debt. The Company's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations and continue as a going concern and optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

There were no changes in the Company's approach to capital management during the nine months ended September 30, 2012.

The Company is not exposed to externally imposed capital requirements.

14. SEGMENTED INFORMATION

Geographic segments

The Company currently operates in one industry segment, being mineral exploration and in the geographic areas as follows.

(Expressed in Canadian dollars - unaudited)

14. SEGMENTED INFORMATION (continued)

Property and Equipment	September 30, 2012	December 31, 2011
Canada	$ -	$ 24,956
	$ -	$ 24,956

Exploration and Evaluation Assets	September 30, 2012	December 31, 2011
Canada	$ 1,620,395	$ 1,637,895
Mexico	5,959,540	5,786,247
	$ 7,579,935	$ 7,424,142

15. ADDITONAL CASH FLOW INFORMATION

Significant non-cash transactions during the nine months ended September 30, 2012 and 2011 are as follows:

	Nine month period ended	
	September 30, 2012	September 30, 2011
Shares issued for mineral properties	$ -	$ 5,138,500
Fair value of warrants granted	$ -	$ 546,152
Fair value of warrants exercised	$ -	$ (151,582)

16. COMMITMENTS

The Company entered into management services and consulting agreements expiring on various dates from May 16, 2012 to June 15, 2013 with a total monthly commitment of $19,500. All the management services and consulting agreements can be terminated with 90 days notice.