Weststar Resources Corp.

Financial Statements

Years Ended December 31, 2012 and 2011

Expressed in Canadian Dollars

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF WESTSTAR RESOURCES CORP.

We have audited the accompanying financial statements of Weststar Resources Corp., which comprise the statement of financial position as at December 31, 2012 and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year 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.

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

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

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

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

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 2 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter
The financial statements of Weststar Resources Corp. as at December 31, 2011 and for the year then ended were audited by another firm of auditors who expressed an unmodified opinion on those financial statements on April 27, 2012.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 25, 2013

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WESTSTAR RESOURCES CORP.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Notes		December 31, 2012		December 31, 2011
Assets					
Current assets					
Cash		$	2,893	$	253,792
Amounts receivable	5		20,473		32,562
Prepaid expenses			2,949		53,196
			26,315		339,550
Non-current assets					
Investments	6		33,750		155,659
Reclamation deposit	7		5,000		5,000
Property and equipment	8		5,918		24,956
Exploration and evaluation assets	9		1,620,395		7,424,142
Total assets		**$**	**1,691,378**	**$**	**7,949,307**
Liabilities and shareholders' equity					
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	10	$	339,820	$	24,730
Total liabilities			339,820		24,730
Shareholders' equity					
Share capital	11		13,196,621		13,196,621
Reserves	12		3,876,883		3,730,184
Deficit			(15,755,696)		(9,157,887)
Accumulated other comprehensive income			33,750		155,659
Total equity			1,351,558		7,924,577
Total liabilities and shareholders' equity		**$**	**1,691,378**	**$**	**7,949,307**

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.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31

(Expressed in Canadian Dollars)

	Notes	2012	2011
Expenses			
Amortization		$ 4,732	$ 9,994
Bank charges and interest		2,287	1,694
Consulting fees	10	151,750	202,570
Management and directors' fees	10	119,879	120,000
Office and general		40,958	114,950
Pre-exploration costs		-	5,198
Accounting, legal and audit	10	132,815	207,555
Rent		28,800	34,722
Shareholder communications		12,857	150,456
Share-based payments	11	146,699	-
Transfer agent and filing fees		16,977	64,968
Travel		4,218	76,515
		661,972	988,622
Other (income) expense			
Realized gain on available-for-sale investments		(13,600)	-
Gain on sale of equipment		(8,588)	-
Impairment of exploration and evaluation assets	9	5,958,025	2,324,494
		5,935,837	2,324,494
Net loss for the year		6,597,809	3,313,116
Other comprehensive loss item			
Unrealized loss (gain) on available-for-sale investments		121,909	(155,659)
Total comprehensive loss for the year		$ 6,719,718	$ 3,157,457
Loss per share, basic and diluted		$ 0.27	$ 0.19
Weighted average number of common shares outstanding		24,133,492	17,470,021

The accompanying notes are an integral part of these financial statements

WESTSTAR RESOURCES CORP.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31
(Expressed in Canadian Dollars)

	Number of shares issued		Share capital		Reserves		Accumulated other comprehensive income		Deficit		Total
Balance, January 1, 2011	10,509,092	$	5,838,044	$	2,885,863	$	-	$	(5,844,771)	$	2,879,136
Comprehensive loss	-		-		-		155,659		(3,313,116)		(3,157,457)
Shares issued - private placement	2,464,400		1,485,946		546,152		-		-		2,032,098
Shares issued - exploration and evaluation assets	9,150,000		5,258,749		449,751		-		-		5,708,500
Warrants exercised	2,010,000		613,882		(151,582)		-		-		462,300
Balance, December 31, 2011	24,133,492	$	13,196,621	$	3,730,184	$	155,659	$	(9,157,887)	$	7,924,577
Comprehensive loss	-		-		-		(121,909)		(6,597,809)		(6,719,718)
Options granted	-		-		146,699		-		-		146,699
Balance, December 31, 2012	24,133,492	$	13,196,621	$	3,876,883	$	33,750	$	(15,755,696)	$	1,351,558

The accompanying notes are an integral part of these financial statements

WESTSTAR RESOURCES CORP.
STATEMENTS OF CASH FLOWS
For the years ended December 31
(Expressed in Canadian Dollars)

		2012		2011
Cash provided by (used for):				
Operating activities				
Net loss for the year	$	(6,597,809)	$	(3,313,116)
Items not involving cash				
Amortization		4,732		9,994
Share-based payments		146,699		-
Realized gain on available-for-sale investments		(13,600)		-
Gain on sale of equipment		(8,588)		-
Write-down of exploration and evaluation assets		5,958,025		2,324,494
		(510,541)		(978,628)
Changes in non-cash working capital				
Amounts receivable		12,089		(13,111)
Prepaid expenses		50,247		(44,084)
Accounts payable and accrued liabilities		315,090		(55,445)
Net cash used in operating activities		(133,115)		(1,091,268)
Investing activities				
Acquisition of exploration and evaluation assets		-		(1,135,000)
Proceeds from investments		13,600		-
Purchase of equipment		(7,105)		(4,932)
Proceeds from sale of equipment		29,999		200
Deferred exploration costs and evaluation costs		(154,278)		(285,802)
Net cash used in investing activities		(117,784)		(1,425,534)
Financing activities				
Shares issued for cash, net of issuance costs		-		2,494,398
Net cash provided by financing activities		-		2,494,398
Decrease in cash		(250,899)		(22,404)
Cash, beginning of the year		253,792		276,196
Cash, end of the year	$	2,893	$	253,792

Additional cash flow information (Note 16)

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 601-121 Brew Street, Port Moody, British Columbia, Canada, V3H 0E2.

2. GOING CONCERN UNCERTAINTY

To date, the Company has not generated revenue from operations. As at December 31, 2012, the Company has net working capital deficiency of $313,505 (December 31, 2011, net working capital - $314,820) and a deficit of $15,755,696 (December 31, 2011 - $9,157,887). The Company incurred a comprehensive loss of $6,719,718 during the year ended December 31, 2012 (2011 - $3,157,457). Until the Company attains profitability, it will be necessary to raise additional financings for general working capital and for exploration costs on its property. Consequently, there is substantial doubt about the Company's ability to continue as a going concern. The operations of the Company have been primarily funded by the issuance of share capital. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. The Company's future capital requirements will depend on many factors, including the costs of exploring and developing its resource properties, operating costs, the current capital market environment and global market conditions. The continued operations of the Company are dependent on its ability to develop a sufficient financing plan, receive continued financial support from related parties, complete sufficient public equity financing, or generate profitable operations in the future. The Company has no assurance that it will be successful in its efforts.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development and upon future profitability. Should the Company be unable to continue as a going concern, it is likely that it would be unable to recover the amounts shown as property and equipment and exploration and evaluation assets. These financial statements do not include any adjustments that would be necessary should the Company be unable to raise sufficient capital and consequently be unable to continue as a going concern.

3. BASIS OF PRESENTATION

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

3. BASIS OF PRESENTATION (continued)

Approval of the financial statements

The financial statements of the Company for the year ended December 31, 2012, were reviewed by the Audit Committee and approved and authorized for issue on April 25, 2013 by the Board of Directors of the Company.

Basis of preparation

The 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. The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

4. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, 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.

Significant Accounting Judgments

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statement are discussed below:

<u>Title to Mineral Property Interests</u>

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreement or transfers and title may be affected by undetected defects.

<u>Exploration and Evaluation Expenditure</u>

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

If, after exploration and evaluation expenditure is capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount the Company carries out an impairment test at the cash-generating unit ("CGU") or group of CGUs level in the year the new information becomes available.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Significant Accounting Estimates and Assumptions

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. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

Estimated Useful Lives of Assets

The estimation of the useful lives of assets has been based on historical and industry experience. Adjustments to useful life are made when considered necessary.

Share-Based Payments

Equity-settled share awards are recognized as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of the Black-Scholes option pricing model, which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life, and is expensed over the vesting period. Using different input estimates or models can produce different option values, which would result in the recognition of a higher or lower expense.

Cash and cash equivalents

Cash consists of cash on hand, deposits held at call with banks, and short-term highly liquid investments with original maturities of three months or less.

Foreign currency translation

The functional currency of the Company is measured using the currency of the primary economic environment in which it operates. The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

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

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

Exchange differences arising on translation of foreign operations are transferred directly to the Company's foreign currency translation reserve in the statement of changes in shareholders' equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

Property and equipment

Recognition and measurement

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment are subsequently measured at cost less accumulated amortization, less any accumulated impairment losses, with the exception of land, which is not depreciated.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Amortization

The amortization rates applicable to each category of property and equipment are as follows:

Class of equipment	Amortization rate
Computer equipment	55% declining balance
Office equipment	20% declining balance
Leasehold improvements	20% declining balance

One-half the normal amortization is taken in the year of equipment acquisition.

Exploration and evaluation assets

Exploration and evaluation expenditures

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs incurred prior to obtaining licenses are expensed in the period in which they are incurred. Once a license to explore an area has been secured, expenditures on acquisition, exploration and evaluation activities are capitalized to exploration, and classified as a component of mineral properties. Such expenditures include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, including drilling costs directly attributable to a property, and directly attributable to general and administrative costs. From time to time the Company may acquire or dispose of a mineral property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets are tested for impairment and transferred to "Mines under construction". No amortization is taken during the exploration and evaluation phase.

Impairment

Exploration and evaluation assets are assessed for impairment by management when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. When there is little prospect of further work on a property being carried out by the Company or its partners, when a property is abandoned or when the capitalized costs are no longer considered recoverable, the related property costs are written down to management's estimate of their net recoverable amount.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets (continued)

Impairment (continued)

The recoverability of the carrying amount of mineral properties is dependent on successful development and commercial exploitation or alternatively the sale of the respective areas of interest.

Decommissioning liabilities

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production.

Decommissioning and site rehabilitation costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs are charged against operations through depreciation of the asset and unwinding of the discount on the provision.

Depreciation is included in operating costs while the unwinding of the discount is included as a financing cost. Changes in the measurement of a liability relating to the decommissioning or site rehabilitation of plant and other site preparation work are added to, or deducted from, the cost of the related asset. The costs for the restoration of site damage, which arises during production, are provided at their net present values and charged against operations as extraction progresses.

Changes in the measurement of a liability, which arises during production, are charged against operating profit. The discount rate used to measure the net present value of the obligations is the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. To date the Company does not have any decommissioning liabilities.

Impairment of assets

Assets that have an indefinite useful life are tested annually for impairment. At the end of each reporting period, the Company reviews the carrying amounts of its assets that are subject to amortization to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but 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 CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Capital stock

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of options or warrants is recorded in share capital and the related residual value is transferred to share capital. For those warrants that expire the recorded value is transferred to deficit.

Flow-through shares

Resource expenditures for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. A liability is recognized for the premium on the flow-through shares and is subsequently reversed as the Company incurs qualifying Canadian exploration expenses.

In circumstances where the Company has issued flow-through shares by way of a unit offering, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve first based on the fair value of the warrant component using the Black-Scholes option pricing model on grant date. Any remaining residual value is then recognized as a liability for the premium on the flow-through shares.

Earnings (loss) per share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of share options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the year.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings (loss) per share (continued)

Existing share options and share purchase warrants have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share is the same.

Share-based payments

The Company operates an employee share option plan, which is described in Note 11. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black–Scholes pricing model, which incorporates all market vesting conditions. For employee share options, the number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financial instruments

The Company classifies its financial assets and liabilities into one of the following categories, depending on the purpose for which the financial instrument was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Financial assets and financial liabilities at fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities classified as FVTPL are acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are recognized at fair value based on market prices, with any resulting gains and losses reflected in net income (loss) for the period in which they arise.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the intention and ability to hold to maturity. They are measured at amortized cost using the effective interest rate method less any impairment loss. A gain or loss is recognized in net income (loss) when the financial asset is derecognized or impaired, and through the amortization process.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are measured at amortized cost, using the effective interest rate method less any impairment loss.

Available-for-sale investments

Non-derivative financial assets that do not meet the definition of loans and receivables are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive loss/income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

Financial liabilities

Financial liabilities are classified as other financial liabilities or FVTPL, based on the purpose for which the liability was incurred. The Company’s liabilities comprise accounts payable and accrued liabilities, which are classified as other financial liabilities. These liabilities are initially recognized at fair value, net of any transaction costs directly attributable to the issuance of the instrument, and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Other

The Company classified its financial instruments as follows:

- Cash and cash equivalents are classified as FVTPL.
- Amounts receivable and reclamation deposit are classified as loans and receivables.
- Investments are classified as available-for-sale.
- Accounts payable and accrued liabilities are classified as other financial liabilities.

Transaction costs related to financial instruments other than FVTPL are capitalized as part of the cost of the financial instrument.

The Company does not use any derivative or hedging instruments.

Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the statement of comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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:

IAS 27 Separate Financial Statements (2011)

This amended version of IAS 27 that now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.

Applicable to annual periods beginning on January 1, 2013.

IAS 28 Investments in Associates and Joint Ventures (2011)

This standard supersedes IAS 28 Investments in Associates and prescribes the accounting 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.

The standard defines "significant influence" and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

Applicable to annual periods beginning on January 1, 2013.

IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is only applicable if it is optionally adopted for annual periods beginning before January 1, 2015. For annual periods beginning on or after January 1, 2015, the Company must adopt IFRS 9 (2010).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRS 10 Consolidated Financial Statements

Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities.*

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and, therefore, must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in “special purpose entities”). Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns.

Applicable to annual periods beginning on January 1, 2013.

IFRS 11 Joint Arrangements

Replaces IAS 31 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.
Joint arrangements are either joint operations or joint ventures:

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures* (2011). Unlike IAS 31, the use of “proportionate consolidation” to account for joint ventures is not permitted.

Applicable to annual periods beginning on January 1, 2013.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRS 12 Disclosure of Interests in Other Entities

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgments and assumptions - such as how control, joint control, and significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

Applicable to annual periods beginning on January 1, 2013.

IFRS 13 Fair Value Measurement

Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a “fair value hierarchy” based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRS 13 Fair Value Measurement (continued)

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

Applicable to annual periods beginning on or after January 1, 2013.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

Amends IAS 1 *Presentation of Financial Statements* to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e., either as a single “statement of profit or loss and comprehensive income”, or a separate “statement of profit or loss” and a “statement of comprehensive income” – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently (i.e., those that might be reclassified and those that will not be reclassified)
- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

Applicable to annual periods beginning on January 1, 2013.

Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Amends the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* to require information about all recognized financial instruments that are set-off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation.*

The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

Applicable to annual and interim periods beginning on January 1, 2013.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

Applicable to annual periods beginning on January 1, 2014.

Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

Amends IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Also, amendments to IFRS 11 and IFRS 12 eliminate the requirement to provide comparative information for periods prior to the immediately preceding period.

Applicable to annual periods beginning on January 1, 2013.

5. AMOUNTS RECEIVABLE

Amounts receivable at December 31, 2012 includes HST recoverable of $16,361 (December 31, 2011 - $32,562) and a receivable from the disposal of office and computer equipment of $4,112 (December 31, 2011 – $Nil).

6. 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 December 31, 2012, 375,000 common shares were held in escrow (December 31, 2011 – 500,000).

During the year ended December 31, 2012, the Company sold 125,000 common shares of CCK for proceeds of $13,600. At December 31, 2012, the fair value of the remaining 375,000 common shares of CCK held was $33,750, and an unrealized loss of $121,909 was recorded in other comprehensive loss for the year ended December 31, 2012.

(Expressed in Canadian dollars)

6. INVESTMENTS (continued)

During the year ended December 31, 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.

7. RECLAMATION DEPOSIT

At December 31, 2012, the Company held a guaranteed investment certificate ("GIC") with an interest rate of 1% (Decemeber 31, 2011 – 1%) per annum. At December 31, 2012, the fair value of the GIC was $5,000 (December 31, 2011 - $5,000). The GIC is held as a resource reclamation deposit and is restricted for other uses.

8. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Equipment	Leasehold Improvement	Total
Cost				
Balance at December 31, 2010	$ 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
Additions	2,724	4,381	-	7,105
Disposals	(12,560)	(26,567)	-	(39,127)
Balance at December 31, 2012	$ 2,724	$ 4,381	$ 4,475	$ 11,580
Amortization and disposals				
Balance at December 31, 2010	$ 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	1,390	1,280	2,062	4,732
Disposals	(9,651)	(8,065)	-	(17,716)
Balance at December 31, 2012	$ 438	$ 749	$ 4,475	$ 5,662
Net book value at December 31, 2012	$ 2,286	$ 3,632	$ -	$ 5,918
Net book value at December 31, 2011	$ 3,861	$ 19,033	$ 2,062	$ 24,956

During the year ended December 31, 2012, the Company disposed of equipment with a net book value of $21,411 (2011 - $200) for proceeds of $29,999 (2011 - $200) resulting in a gain of $8,588 (2011 - $nil).

9. 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 situated in the Similkameen Mining District, British Columbia. 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 (“NSR”) and under the terms of the agreement the Company has the right to purchase the NSR 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 (received subsequent to December 31, 2012);
- $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.

9. 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 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% 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 in the Dawson Mining District in the Yukon Territory (the "Sunrise Property").

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 $1,744,475.

9. 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 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 the McKinnon Group 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, Ontario. The Company paid a finder’s fee of $4,500.

9. 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, located in Jalisco, Mexico, 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 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 (issued at a fair value of $2,521,592);
- Issuance of 1,650,000 common shares of the Company to Minera (issued at a fair value of $1,007,157); and

9. 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 National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("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 share capital 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;

9. 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 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 share capital 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 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, whichever event occurs first.

At December 31, 2012, the Company was in default of payments. As there were no immediate plans to remedy the default, the property was impaired and written-down to $nil.

(Expressed in Canadian dollars - unaudited)

9. 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	-	166,778	166,778
Option agreement	(17,500)	-	(17,500)
Total deferred exploration costs	(17,500)	166,778	149,278
Impairment charge	-	(5,958,025)	(5,958,025)
Balance, December 31, 2012	**$ 1,620,395**	**$ -**	**$ 1,620,395**

(Expressed in Canadian dollars)

9. 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	36,626	-	-	237,747	285,803
Total deferred exploration costs	11,430	36,626	-	-	237,747	285,803
Impairment charge	-	(1,744,475)	(460,519)	(119,500)	-	(2,324,494)
Balance, December 31, 2011	**$ 1,637,895**	**$ -**	**$ -**	**$ -**	**$ 5,786,247**	**$ 7,424,142**

(Expressed in Canadian dollars - unaudited)

10. RELATED PARTY TRANSACTIONS

Key management personnel compensation for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Short-term compensation	$ 243,410	$ 332,095
Share-based payments	90,953	-
	$ 334,363	$ 332,095

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.

As at December 31, 2012 accounts payable and accrued liabilities included $163,246 (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 without stated terms of repayment.

Due to related parties	December 31, 2012	December 31, 2011
A former director for managment fees	$ 22,400	$ 590
A former director for consulting fees	22,400	-
A director for deferred exploration fees	13,440	-
A former director for accounting fees	25,200	-
A company with directors in common	63,421	-
A director for business activity expenses	16,385	-
	$ 163,246	$ 590

In addition, the Company paid $8,050 in rent expenses (2011 - $nil) to a company with common directors and management and recovered rent expenses of $20,750 (2011 - $50,036) from a company with common directors and management.

11. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

Issued share capital

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

During the year ended December 31, 2012, there were no share capital transactions.

11. SHARE CAPITAL (continued)

Issued share capital (continued)

During the year ended December 31, 2011, the following share capital transactions occurred:

(a) 500,000 common shares valued at $200,000 were issued in lieu of a $500,000 work commitment on the Golden Fox Property (note 9);

(b) 2,000,000 common shares valued at $1,060,000 were issued as acquisition costs on the Sunrise Claims (note 9);

(c) 6,650,000 common shares valued at $3,998,749 were issued as acquisition costs on the La Paloma Claims (note 9);

(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 $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 reserves. 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 1,232,200 warrants as the effect would be anti-dilutive.

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 Exchange 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 the options are exercisable for a period not to exceed 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.

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

Share options (continued)

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

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%; 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 year ended December 31, 2012.

Options granted to directors, employees and consultants vest immediately. Options granted to consultants engaged in investor relation activities will vest in stages over a minimum period of 12 months with no more than one-quarter of the options vesting in any three month period.

The changes in share options during the years ended December 31, 2012 and 2011 are as follows:

	For the year ended December 31, 2012	**Weighted Average Exercise Price**	For the year ended December 31, 2011	Weighted Average Exercise Price
Balance, beginning of year	56,252	$1.73	160,420	$1.60
Activities during the year				
Granted	2,000,000	$0.15	-	-
Expired	-	-	(104,168)	$1.52
Cancelled	(25,002)	$1.74	-	-
Balance, end of year	2,031,250	$0.17	56,252	$1.73

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

Share options (continued)

The following table summarizes information about share options outstanding at December 31, 2012:

Exercise price	Number outstanding	Number exercisable	Weighted average remaining contractual life (years)	Expiry date
$1.68	18,750	18,750	0.64	August 22, 2013
$1.80	12,500	12,500	0.79	October 15, 2013
$0.15	2,000,000	2,000,000	4.52	July 9, 2017
	2,031,250	2,031,250	4.46	

The following table summarizes information about share options outstanding at December 31, 2011:

Exercise price	Number outstanding	Number exercisable	Weighted average remaining contractual life (years)	Expiry date
$1.68	31,251	31,251	1.64	August 22, 2013
$1.80	25,001	25,001	1.79	October 15, 2013
	56,252	56,252	1.71	

Warrants

The changes in warrants during the years ended December 31, 2012 and 2011 are as follows:

	For the year ended December 31, 2012	Weighted Average Exercise Price	For the year ended December 31, 2011	Weighted Average Exercise Price
Balance at beginning of year	5,097,819	$1.06	5,887,163	$0.82
Issued	-	-	2,926,152	$1.50
Exercised	-	-	(2,010,000)	$0.23
Expired	(3,865,619)	$0.93	(1,705,496)	$1.79
Balance at end of year	1,232,200	$0.94	5,097,819	$1.06

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

Warrants (continued)

A summary of warrants outstanding at December 31, 2012 is as follows:

Number of warrants	Exercise price	Expiry date	Weighted average remaining contractual life (years)
1,232,200	$0.94	July 5, 2013	0.52

A summary of warrants outstanding at December 31, 2011 is as follows:

Number of warrants	Exercise price	Expiry date	Weighted average remaining contractual life (years)
1,615,000	$0.23	October 27, 2012	0.82
556,667	$1.20	February 10, 2012	0.11
1,232,200	$1.50	July 05, 2012	0.51
193,952	$1.50	July 05, 2012	0.51
1,500,000	$1.50	August 9, 2012	0.61
5,097,819	$1.06		0.60

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	-	180%
Risk-free interest rate	-	1.02%
Dividend yield	-	-
Expected life (years)	-	1.07

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

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 and reducing the exercise price $1.50 to $0.94.

12. RESERVE

The share-based payment reserve records items recognized as share-based payment expense until such time as 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.

13. 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 one 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.

13. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to 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.

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, amounts receivable and accounts payable and accrued liabilities approximate the carrying amounts due to the short term nature of these instruments.

14. 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 year ended December 31, 2012.

The Company is not exposed to externally imposed capital requirements.

(Expressed in Canadian dollars)

15. SEGMENTED INFORMATION

Geographic segments

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

Property and Equipment		**December 31, 2012**		**December 31, 2011**
Canada	$	5,918	$	24,956

Exploration and Evaluation Assets		**December 31, 2012**		**December 31, 2011**
Canada	$	1,620,395	$	1,637,895
Mexico		-		5,786,247
	$	1,620,395	$	7,424,142

16. ADDITIONAL CASH FLOW INFORMATION

Significant non-cash transactions during the year ended December 31, 2012 and 2011 are as follows:

	Year ended			
		December 31, 2012		**December 31, 2011**
Shares issued for mineral properties	$	-	$	5,138,500
Fair value of options granted	$	146,699	$	-
Fair value of warrants granted	$	-	$	546,152
Fair value of warrants exercised	$	-	$	(151,582)

17. COMMITMENTS

The Company entered into management services and consulting agreements with officers, directors and consultants 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.

18. INCOME TAXES

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

(Expressed in Canadian dollars)

18. INCOME TAXES (continued)

	2012	2011
Statutory rates in Canada	25.00%	26.50%
Expected income tax recovery at Canadian statutory rates	(1,649,452)	(877,976)
Effect in reduction in statutory rates	-	49,697
Change in temporary differences	(9,690)	(46,241)
Non-deductible expenses for tax purposes	37,090	2,648
	(1,622,052)	(871,872)
Increase in valuation allowance	1,622,052	871,872
Income taxes recognized	$ -	$ -

Effective January 1, 2012, the Canadian federal corporate tax rate decreased from 16.5% to 15%. The reduction has resulted in a decrease in the Company's statutory tax rate from 26.5% to 25%.

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of December 31 are as follows:

	2012	2011
Non-capital losses carried forward	$ 4,957,874	$ 4,378,084
Excess of tax value of exploration and evaluation assets and property and equipment over carrying value	8,420,012	2,479,448
AFS investment	60,955	-
Share issue costs	166,192	259,288
Unrecognized deductible temporary differences	$ 13,605,033	$ 7,116,820

The Company has accumulated non-capital losses for Canadian tax purposes of $4,958,000 that expire in various years as follows:

2015	$ 52,000
2026	92,000
2027	404,000
2028	607,000
2029	1,385,000
2030	727,000
2031	1,111,000
2032	580,000
	$ 4,958,000

19. SUBSEQUENT EVENTS

Option Agreement

On February 7, 2013, the Company entered into an option agreement with Caribou King Resources Ltd. (the “Option Agreement”) to earn a 70% interest in the Tahts Reach Property and Barkerville Claims (collectively, the “Property”) comprising 6 mining claims located in British Columbia.

Payment terms are as follows:

- $5,000 (paid) and 300,000 common shares (issued) on February 15, 2013 in conjunction with receipt of approval from the Exchange;
- $10,000 and 150,000 common shares on February 15, 2014; and
- $25,000 and 150,000 common shares on February 15, 2015.

In addition, the Company must incur exploration expenditures on the Property of $45,000 over 2 years.

Private Placement

On February 22, 2013, the Company closed a non-brokered private placement financing for gross proceeds of $137,025.

The Company issued 3,915,000 units at a price of $0.035 per unit. Each unit consists of one common share in the capital of the Company and one-half of one share purchase warrant. Each whole warrant is exercisable by the holder to acquire one additional common share of the Company for a period of two years from issuance at an exercise price of $0.07 in the first year and $0.10 in the second year. The units are subject to a four-month hold period.

In addition, the Company paid a finder’s fee of $7,980 and 153,000 finder’s warrants to registered dealers and arm’s length parties. Each finder’s warrant is exercisable by the holder to acquire one additional common share of the Company for a period of two years from issuance at an exercise price of $0.07 in the first year and $0.10 in the second year. The finder’s warrants are also subject to a four-month hold period.