

**NASS VALLEY GATEWAY LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2012 and 2011**  
*(Expressed in Canadian Dollars)*

# NASS VALLEY GATEWAY LTD.

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## INDEPENDENT AUDITORS' REPORT

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To the Shareholders of  
Nass Valley Gateway Ltd.

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

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nass Valley Gateway Ltd. as at December 31, 2012 and 2011, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 to these consolidated financial statements which describe the existence of a material uncertainty that may cast significant doubt about the ability of Nass Valley Gateway Ltd. to continue as a going concern.

*Manning Elliott LLP*

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 25, 2013

**Nass Valley Gateway Ltd.**  
**Consolidated statements of financial position**  
*(Expressed in Canadian Dollars)*

	December 31 2012	December 31 2011
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents (Note 4)	7,853	6,155
Amounts receivable	10,848	3,852
Amounts receivable from related parties (Note 7)	3,200	-
Prepaid expenses	4,540	4,940
	<b>26,441</b>	14,947
<b>Non-current assets</b>		
Reclamation bond (Note 5(b))	3,000	3,000
Exploration and evaluation assets (Note 5)	-	198,887
	<b>29,441</b>	216,834
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	73,481	24,937
Due to related parties (Note 7)	20,786	33,787
	<b>94,267</b>	58,724
<b>Non-current liabilities</b>		
Loans repayable to related party (Note 7)	-	299,087
	<b>94,267</b>	357,811
<b>Shareholders' deficiency</b>		
<b>Controlling interest</b>		
Share capital (Note 6(b) and (e))	2,531,899	2,162,665
Share subscriptions (Note 6(b))	-	15,000
Share based payment reserve	291,601	229,835
Deficit	(2,888,726)	(2,548,477)
	<b>(65,226)</b>	(140,977)
<b>Non-controlling interest</b> (Note 1 and 2)	<b>400</b>	-
	<b>(64,826)</b>	(140,977)
	<b>29,441</b>	216,834

Nature and Continuance of Operations (Note 1)  
 Subsequent event (Note 12)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 25, 2013 and were signed on its behalf:

"Dieter Peter"  
 Dieter Peter, Director

"Andrew von Kursell"  
 Andrew von Kursell, Director

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

**Nass Valley Gateway Ltd.**  
**Consolidated statements of comprehensive loss**  
*(Expressed in Canadian Dollars)*

	For the years ended December 31	
	2012	2011
	\$	\$
<b>Revenue</b>	-	-
<b>Expenses</b>		
Accounting and legal	84,231	20,354
Amortization	-	2,556
Administrative services	134,197	106,790
Insurance	10,048	11,710
Loan interest expenses and bank charges (Note 7)	7,436	36,700
Investor relations	14,219	11,090
Information technology services	1,093	4,093
Office expenses	4,605	3,172
Share based payments (Note 6(c))	60,489	20,851
Transfer agent and filing fees	29,474	12,654
Travel and promotion	1,261	10,273
<b>Loss before other items</b>	<b>(347,053)</b>	<b>(240,243)</b>
<b>Other items</b>		
Impairment of amounts receivable	-	(14,007)
Impairment of exploration and evaluation assets	-	(690,086)
Forgiveness of debt	6,804	-
<b>Net loss and comprehensive loss</b>	<b>(340,249)</b>	<b>(944,336)</b>
Net loss and comprehensive loss attributable to:		
Controlling interest	(340,249)	(944,336)
Non-controlling interest	-	-
	<b>(340,249)</b>	<b>(944,336)</b>
Net loss per share, basic and diluted	\$ (0.02)	\$ (0.08)
<b>Weighted average number of shares outstanding</b>	<b>20,594,846</b>	<b>12,306,187</b>

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

**Nass Valley Gateway Ltd.**  
**Consolidated statements of changes in equity**  
**For the years ended December 31, 2012 and 2011**  
*(Expressed in Canadian Dollars)*

	Share Capital		Share Subscriptions	Share based payment reserve	Deficit	Total
	Number of shares	Amount				
	(Note 12 (d))	\$	\$	\$	\$	\$
<b>Balance, January 1, 2011</b>	<b>12,175,417</b>	<b>2,137,415</b>	-	<b>208,984</b>	<b>(1,604,141)</b>	<b>742,258</b>
Property option	33,333	6,500	-	-	-	6,500
Bonus shares on loans	125,000	18,750	-	-	-	18,750
Share subscriptions	-	-	15,000	-	-	15,000
Share based payments	-	-	-	20,851	-	20,851
Comprehensive loss	-	-	-	-	(944,336)	(944,336)
<b>Balance, December 31, 2011</b>	<b>12,333,750</b>	<b>2,162,665</b>	15,000	<b>229,835</b>	<b>(2,548,477)</b>	<b>(140,977)</b>
Property option (Note 5, 6(b) and 7)	50,000	3,000	-	-	-	3,000
Private placement, net (Note 6(b))	12,000,000	591,523	(15,000)	-	-	576,523
Spin off mineral properties (Note 5 and 6(e))	-	(225,289)	-	-	-	(225,289)
Finder's warrants (Note 6(d))	-	-	-	1,277	-	1,277
Share based payments (Note 6(c))	-	-	-	60,489	-	60,489
Comprehensive loss	-	-	-	-	(340,249)	(340,249)
<b>Balance, December 31, 2012</b>	<b>24,383,750</b>	<b>2,531,899</b>	-	<b>291,601</b>	<b>(2,888,726)</b>	<b>(65,226)</b>

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

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2012 and 2011**  
*(Expressed in Canadian Dollars)*

**Nass Valley Gateway Ltd.**  
**Consolidated statements of cash flows**  
*(Expressed in Canadian Dollars)*

	<b>For the years ended December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>	\$	\$
Net loss for the year	<b>(340,249)</b>	(944,336)
<i>Items not affecting cash:</i>		
Amortization	-	2,556
Share based payments	<b>60,489</b>	20,851
Interest on loans paid in shares	-	18,750
Impairment of amounts receivable from related parties	-	14,007
Impairment of exploration and evaluation assets	-	690,086
Accrued interest on loans from related party	-	17,525
Forgiveness of debt	<b>(6,804)</b>	-
	<b>53,685</b>	(763,775)
<i>Changes in non-cash working capital items:</i>		
Increase in amounts receivable	<b>(6,996)</b>	6,654
Decrease in prepaid expenses and deposit	<b>400</b>	521
Increase in due from related parties	<b>(3,200)</b>	-
Increase in accounts payable and accrued liabilities	<b>48,544</b>	1,743
Decrease in due to related parties	<b>(6,197)</b>	(728)
	<b>(254,013)</b>	(172,371)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital (Note 6(b))	<b>577,800</b>	-
Share subscriptions received (Note 6(b))	-	15,000
Receipts/(Repayment) of loan from related parties (Note 7)	<b>(299,087)</b>	220,000
	<b>278,713</b>	235,000
<b>Cash flows from investing activities</b>		
Non-controlling interest	<b>400</b>	-
Acquisition of equipment	-	(485)
Exploration and evaluation assets	<b>(23,402)</b>	(65,137)
	<b>(23,002)</b>	(65,622)
<b>Change in cash and equivalents</b>	<b>1,698</b>	(2,993)
<b>Cash and equivalents, beginning</b>	<b>6,155</b>	9,148
<b>Cash and equivalents, ending</b>	<b>7,853</b>	6,155
<i>Supplemental disclosures: (Note 11)</i>		
Taxes paid	-	-
Interest paid	<b>24,593</b>	-

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Nass Valley Gateway Ltd. (the “Company” or “NVG”) is incorporated under the laws of British Columbia, Canada and its principal business activities included acquisition and exploration of mineral properties in Ontario and British Columbia, Canada. The Company’s shares are listed on the Canadian National Stock Exchange (“CNSX”) trading under the symbol “NVG”. The principal business address of the Company is 575 – 1111 West Hastings Street, Vancouver, V6E 2J3 British Columbia.

On April 27, 2012, the Company entered into a joint venture agreement with Vixon Technology Ltd. (“Vixon”) for the commercialization and future assembly of industrial drying systems based on the applications of multi-wave technology (the “M-Wave System”). This joint venture will be carried out through the Company’s subsidiary, M-Wave EnviroTech Inc. (“MWE”) (formerly Greenville Environomic Energy Ltd.), in which the Company and Vixon each hold 60% and 40% ownership interests respectively. Under the agreement, the Company will operate this project. On October 5, 2012, MWE also entered into a joint venture agreement with Imperial Cedar Products Ltd. (“ICP”), for a Pilot Plant in Canada. MWE holds 60% in M-Wave System BC01 Inc. (“BC01”) (formerly Greenville Energy Conversion Inc.), the subsidiary formed under the joint venture agreement at December 31, 2012. Both MWE and BC01 were not active in 2012.

### **Plan of arrangement – Spin Off**

On October 15, 2012, the Company and its wholly subsidiary Kirkland Precious Metals Corp. (“KPM”) completed a Plan of Arrangement (“POA”) pursuant to which the Kirkland Properties were transferred from Nass Valley Gateway Ltd. To KPM, and then KPM was spun off to Nass Valley Gateway Ltd.’s shareholders, effectively eliminating any further involvement in the Kirkland Lake Properties by Nass Valley Gateway Ltd. The Company’s primary focus is its technology venture in the multi-wave drying technology and energy-to-waste technology. (Note 5 and 6(e))

The Company has recently disposed of its Kirkland Lake Properties as outlined above, and during 2011 the Company impaired its Nass Bay Project. Although the Company has initiated its M-Wave System Project, it has never generated any reserve from operations and its ability to develop and sell the M-Wave System will depend on obtaining financial and other resources necessary to generate revenue.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, and accordingly, do not purport to give effect to adjustments which may be required should the Company be unable to achieve the objectives above as a going concern. The net realizable value of the Company’s assets may be materially less than the amounts recorded in these consolidated financial statements should the Company be unable to realize its assets and discharge its liabilities in the normal course of business. At December 31, 2012, the Company had an accumulated deficit of \$2,888,726 which has been funded primarily by the issuance of equity and loans from related parties. Ongoing operations of the Company are dependent upon the Company’s ability to receive continued financial support, complete equity financings, the successful commercialization of its new technologies and ultimately the generation profitable operations in the future. Accordingly, there is significant doubt about the Company’s ability to continue as a going concern.

### **Basis of measurement and preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They are prepared on a historical cost basis, except for certain financial instruments classified as fair value through profit or loss which have been measured at fair value.

The policies set out in the ensuing paragraphs have been consistently applied to all periods presented unless otherwise noted.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.



## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **a) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Global Environomic Systems Ltd. and Nass Energy Ltd., its 60% owned joint venture M-Wave EnviroTech Inc. They also include the assets and operations of KPM up to October 15, 2012.

In preparing the consolidated financial statements, all intercompany balances and transactions among the group entities are eliminated.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

The continuity of the non-controlling interest is comprised as follows:

	\$
Balance, January 1, 2011 and December 31, 2011	-
Investment in MWE (40%) and BC01 (40%) by non-controlling shareholders	400
<u>Balance, December 31, 2012</u>	<u>400</u>

### **b) Significant accounting judgements and estimates**

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, profit 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 for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year are:

- Share based payments is based upon expected volatility and option life estimates;
- The provision of income taxes is based on judgements in applying income tax law and estimates about timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities;
- The assessment of indications of impairment of each of the exploration and evaluation assets and related determination of the net realizable value and write-down of those assets where applicable.

The assessment of the Company's ability to develop the market and commercialize new technologies and obtain financing to fund the future working capital requirements involves judgement. The judgment made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment is the going concern assumption.

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**c) Cash and equivalents**

Cash is comprised of cash on hand and demand deposits. Cash equivalents include short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**d) Foreign currency**

The presentation and functional currency of the Company and each of its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a currency other than the functional currency are retranslated at historical exchange rates.

**e) Exploration and evaluation assets**

Exploration and evaluation costs, including the acquisition, exploration and development of mineral properties are capitalized as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and the commercial viability of the project. The capitalized costs are presented as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. Capitalized costs include costs directly related to exploration and evaluation activities in the area of interest. General and administrative costs are only allocated to the asset to the extent that those costs can be directly related to operational activities in the relevant area of interest. When a license is relinquished or a project is abandoned, the related costs are recognized in profit and loss immediately. Upon commencement of commercial production, the related accumulated costs are amortized to income using the units of production method over estimated recoverable ore reserves. Management periodically assesses the carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that have lapsed, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and do not necessarily reflect present or future values. The costs incurred include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

**f) Decommissioning liabilities**

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities and may from time to time incur decommissioning liabilities and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2012 and 2011, the Company had not incurred any decommissioning liabilities related to the exploration and development of its mineral properties.

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**g) Impairment**

Impairment is assessed at the level of cash-generating units. Management regularly assesses carrying values of the non-producing mineral properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if one of the following factors are present; the rights to explore have expired or are near to expiry with no expectation of renewal, no further substantive expenditures are planned or budgeted, exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered, indications that in an area with development likely to proceed the carrying amount is unlikely to be recovered in full be development or sale. The related property costs are written down to management's estimate of their net recoverable amount.

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.

**h) Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resourced embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

**i) Share-based payments**

The fair value of stock options granted is measured at grant date using the Black-Scholes option pricing model. Where options are granted to consultants for goods or services rendered, the options are measured at the fair value of the goods or services received by the Company. If the fair value of the goods and services received cannot be reliably measured, the fair value of the stock option granted is used instead. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are expected to ultimately vest is computed. The movement in cumulative expense is recognized in the statement of loss with a corresponding entry within equity, against share based compensation reserve. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received together with any related amount in share based compensation reserve is credited to share capital.

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.

**j) Loss per share**

Basic loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. To compute diluted loss per share, adjustments are made to common shares outstanding. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would be outstanding if, at the beginning of the period or at time of issuance, all options and warrants were exercised. The proceeds from exercise are assumed to be used to purchase the Company's common shares at their average market price during the period. If this computation is anti-dilutive, diluted loss per share \$0.02 (2011 - \$0.08) is the same as basic loss per share. For the periods presented, this calculation proved to be anti-dilutive.

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**k) Share issue costs**

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are expensed.

**l) Valuation of equity units issued in private placements**

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

**m) Income taxes**

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

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 regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting loss nor taxable loss and differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the underlying assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it more likely than not that a deferred tax asset will be recovered, it does not recognize the asset.

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.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **n) Financial instruments**

#### **Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loan and receivables, and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. It is management's opinion that the Company is not exposed to significant interest or credit risk arising from these financial instruments.

- *Financial assets at fair value through profit or loss*  
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets and include cash and equivalents, which are initially recognized at fair value.
- *Loans and receivables*  
Loans and receivables are non derivative financial assets which fixed or determinable payments that are not quoted in an active market. They are classified as current or non current assets based on their maturity date. Assets in this category include amounts receivable from related parties and are measured at amortized cost less impairment.
- *Available-for-sale financial assets*  
Available-for-sale financial assets are either designated as available for sale or not classified in any other categories. They are initially recognized at fair value plus transaction costs and are subsequently carried at fair value, with unrealized gains and losses recorded in other comprehensive income until disposition or other-than-temporary impairment at which time the gain or loss is recorded in earnings. The Company does not have any available-for-sale financial assets.

#### **Financial liabilities**

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

*Fair value through profit or loss* – this category comprises of derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss.

*Other financial liabilities* – this category includes accounts payable, due to and loan payable to related parties, are initially recognized at fair value and subsequently stated at amortized cost. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the date of the statement of financial position.

#### **Impairment of financial assets**

The Company assesses at each reporting date, whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Financial assets carried at amortization: the loss is the difference between the amortized cost and its value of estimated future cash flows, discounted using the instrument's original effective interest rate;
- Available-for-sale financial asset: The loss is the amount comprising the difference between its original cost and its current fair value, less any impairment previously recognized in the statement of loss. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net loss.

Reversals of impairment losses on financial assets carried at amortized cost are recorded through the statement of loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss had been recognized. Impairment on available-for-sale instruments is not reversed.

### **3. ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. Each of the additional new standards outlined below is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, except for IFRS 9 “Financial Instruments” which is effective for annual periods beginning on or after January 1, 2015. The Company has not yet assessed the impact, if any, that the new amended standards will have on its financial statements or whether to early adopt any of the new requirements.

#### **IFRS 7 “Financial Instruments: Disclosures”**

In December 2011, the IASB issued an amendment to this standard, which requires entities to provide additional information about offsetting of financial assets and financial liabilities that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. This amendment is not expected to affect the Company.

#### **IFRS 9 “Financial Instruments”**

The IASB aims to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’ (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. Management has yet to assess the impact of this new standard to the Company.

#### **IFRS 10 “Consolidated Financial Statements”**

IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 changed the definition of control such that the same criteria are applied to all entities to determine control. IFRS 10 supersedes all of the guidance in IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities.

#### **IFRS 11 “Joint Arrangements”**

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures.

#### **IFRS 12 “Disclosure of Interests in Other Entities Contributions”**

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

#### **IFRS 13 “Fair Value Measurement”**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value that is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

**3. ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED (continued)**

**IAS 27 “Separate Financial Statements”**

As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

**IAS 28 – Investments in Associates and Joint Ventures**

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.

**IAS 32 “Offsetting Financial Assets and Financial Liabilities” (Amendments to IAS 32)**

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32’s criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of ‘currently has a legally enforceable right of set-off’
- that some gross settlement systems may be considered equivalent to net settlement

The Amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

**4. CASH AND EQUIVALENT**

	<b>December 31, 2012</b>	December 31, 2011
	<b>\$</b>	<b>\$</b>
Bank	<b>2,853</b>	1,155
Term deposit	<b>5,000</b>	5,000
	<b>7,853</b>	6,155

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**5. EXPLORATION AND EVALUATION ASSETS**

	Nass Bay Project \$	Kirkland Lake \$	Total \$
<b>Balance, 1 January, 2011</b>			
<b>Acquisition costs</b>	-	95,500	95,500
<b>Deferred exploration costs</b>	690,086	31,750	721,836
	<b>690,086</b>	<b>127,250</b>	<b>817,336</b>
<i>Changes during 2011</i>			
<i>Acquisition costs</i>	-	46,500	46,500
<i>Deferred exploration costs</i>	-	25,137	25,137
<i>Impairment of deferred Exploration costs</i>	(690,086)	-	(690,086)
	(690,086)	71,637	(618,449)
<b>Balance, December 31, 2011</b>			
<b>Acquisition costs</b>	-	142,000	142,000
<b>Deferred Exploration costs</b>	-	56,887	56,887
	-	<b>198,887</b>	<b>198,887</b>
<i>Changes during 2012</i>			
<i>Acquisition costs</i>	-	3,000	3,000
<i>Deferred Exploration costs</i>	-	23,402	23,402
<i>Transfer to KPM in spin off (Note 6(e))</i>	-	(225,289)	(225,289)
	-	(198,887)	(198,887)
<b>Balance, December 31, 2012</b>			
<b>Acquisition costs</b>	-	-	-
<b>Deferred Exploration costs</b>	-	-	-
	-	-	-

**a) Nass Bay Project, British Columbia**

The Nass Bay project is a construction aggregate project and is comprised of staked Crown owned mineral claims consisting of approximately 680 hectares along the south-easterly shore of Observatory Inlet. These staked claims are on crown lands and adjoin the boundary of the Nisga'a Lands. The claims are conventional mineral tenures which are 100% owned by the Company.

During the year ended December 31, 2011, the Company determined that the deferred exploration costs of \$690,086, capitalized under the project, should be impaired and charged the amount to operations. The reclamation bond was purchased for this project.

**b) Kirkland Lake Project, Ontario**

Effective on February 1, 2010, the Company entered into an acquisition agreement (the "Agreement") with Golden Dawn Minerals Inc. which gives the Company an option to acquire 80% Joint Venture interest in the three gold prospects within the Larder Lake Mining Division of the Province of Ontario, namely the Central Catharine, 80 Ft Fall and the Link Catharine properties.

Under the Agreement, the Company is required to make the following payments in addition to a work commitment of \$1,000,000 to be expended on or before the fourth anniversary of the effective date (February 1, 2010):



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**5. EXPLORATION AND REVALUATION ASSETS (continued)**

**b) Kirkland Lake Project, Ontario (continued)**

- (i) To the original Optionors. \$120,000 in cash and issuance of 50,000 (150,000 pre-consolidation) common shares.

	Cash payments	Common shares
On or before February 4, 2010 (paid in 2010)	\$ 60,000	-
On or before December 18, 2010 (paid and issued in 2010)	20,000	16,667
On or before January 18, 2011 (paid and issued in 2011)	40,000	33,333
	120,000	50,000
Discount granted in 2010 for early payments	(2,000)	-
	\$ 118,000	50,000

- (ii) To Golden Dawn Minerals Inc.

	Common shares
Within 10 days subject to required approval (effective date) (issued in 2010)	66,667
On or before the second anniversary of the effective date	50,000
On or before the third anniversary of the effective date	33,333
	150,000

At the year ended December 31, 2011, the Company completed the total cash payments to the Optionors of \$118,000 and issued 50,000 shares valued at \$10,000 to the Optionor and 66,667 shares valued at \$14,000 to Golden Dawn Minerals Inc. pursuant to the Agreement.

During the year ended December 31, 2012, the Company:

- (i) issued 50,000 shares to Golden Dawn Minerals Inc., valued at \$3,000 pursuant to the Agreement (Note 7); and
- (ii) incurred \$23,402 (year ended December 31, 2011: \$25,137) in exploration expenditures, bringing the total amount of capitalized exploration expenditures to \$80,289 at December 31, 2012 (December 31, 2011: \$56,887).

Cumulative exploration costs on the Kirkland Lake Project are as follows:

	December 31 2012	December 31 2011
	\$	\$
Consulting	1,500	1,500
Contracted services	21,000	13,500
Fieldwork	41,652	25,750
Reports, drafting and maps	16,137	16,137
Transfer to KPM in spin-off (Note 6(e))	(80,289)	-
Capitalized deferred exploration costs	-	56,887

Upon completion of the POA described in Note 1, the Company had effectively assigned all its rights and interests in and to the Agreement and all its rights and interests in and to the Central Catharine, 80 Ft Fall and the Link Catharine properties, with the acknowledgment from Golden Dawn Minerals Inc., to KPM.

## **6. SHARE CAPITAL**

### **a) Authorized share capital**

At December 31, 2012, the authorized share capital of the Company comprised of an unlimited number of common shares at no par value. All issued and outstanding shares are fully paid.

### **b) Issue of common shares**

On April 23, 2012, the Company received subscriptions for 12,000,000 million units for total proceeds of \$600,000. Each unit consists one common share and one warrant, exercisable at a price of \$0.10 within two years of issue. Finders' fees amounting to \$7,200 cash and 32,000 broker warrants were paid with respect to the private placement. All securities issued pursuant to this private placement are subject to a four-month hold period following the closing date.

On March 13, 2012, the Company consolidated its outstanding common shares on the basis of one post consolidated share for three pre-consolidated shares held, rounded to the nearest share. The total outstanding common shares of 37,151,303 were consolidated to 12,383,750. The outstanding shares, weighted average outstanding shares and loss per share information have been retrospectively adjusted to reflect this change. In addition, all share issuances, options and warrant transactions have been retrospectively adjusted to reflect the changes.

On February 28, 2012, the Company issued 50,000 (post-consolidated) common shares, valued at \$3,000 to Golden Dawn Minerals Inc. pursuant to the acquisition agreement in Note 5(b).

During the year ended December 31, 2011, the Company issued common shares with respect to the Kirkland Lake properties.

In 2011, the Company also issued 125,000 common shares (375,000 pre-consolidation), valued at \$18,750 to Merfin Management as interest, pursuant to the loan agreements between Merfin Management and the Company.

### **c) Stock options**

The Company grants stock options to employees, directors, officers, and consultants as compensation for services pursuant to its Stock Option Plan (the "Plan"). Options issued pursuant to the Plan must have an exercise price greater than or equal to the "Market Price" of the Company's stock on the grant date less applicable discounts. Options have a maximum expiry period of up to five years from the grant date and are subject to the minimum vesting requirements, as determined by the Board of Directors.

The number of options that may be issued under the Plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date. Stock options granted to directors vest at a rate of 50% on the grant date and the balance on the first anniversary of the grant date. Stock options granted to employees vest at a rate of 50% on the first anniversary of the grant date and the balance on the second anniversary of the grant date.

On September 26, 2012, the Company cancelled all outstanding options (vested and unvested) with shareholders' approval. Subsequently, on November 8, 2012, the Company granted and issued new stock options to employees and consultants. The new grant of stock options in November 2012 included re-issuance of stock options under new set of terms to some employees and consultants who have had their options cancelled by the Company in September 2012.

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**6. SHARE CAPITAL (continued)**

**c) Stock options (continued)**

The following tables summarize the continuity of the Company's stock options:

Expiry Date	Exercise Price \$	December 31 2011	Issued	Expired/ Forfeited	Cancelled	December 31 2012
January 31, 2012	0.45	215,328	-	(215,328)	-	-
June 25, 2012	0.15	70,327	-	(70,327)	-	-
June 15, 2013	0.15	451,990	-	(99,498)	(352,492)	-
March 29, 2014	0.21	11,666	-	-	(11,666)	-
March 1, 2012	0.30	16,666	-	(16,666)	-	-
January 4, 2015	0.15	-	428,324	(79,997)	(348,327)	-
November 8, 2015	0.10	-	1,489,152	-	-	1,489,152
		765,977	1,917,476	(481,816)	(712,485)	1,489,152
<b>Weighted average exercise price(\$)</b>		<b>0.24</b>	<b>0.11</b>	<b>0.29</b>	<b>0.15</b>	<b>0.10</b>

Expiry Date	Exercise Price \$	December 31 2010 (audited)	Issued	Expired/ Forfeited	December 31 2011 (audited)
January 31, 2012	0.45	215,328	-	-	215,328
May 4, 2012	0.93	10,000	-	(10,000)	-
June 25, 2011	0.54	56,867	-	(56,867)	-
June 25, 2012	0.15	75,994	-	(5,667)	70,327
June 15, 2013	0.15	475,323	-	(23,333)	451,990
March 29, 2014	0.21	-	11,666	-	11,666
March 1, 2012	0.30	-	16,666	-	16,666
		833,512	28,332	(95,867)	765,977
<b>Weighted average exercise price(\$)</b>		<b>0.27</b>	<b>0.27</b>	<b>0.45</b>	<b>0.24</b>

Details regarding the options outstanding as at December 31, 2012 are as follows:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Grant Date Fair Value	Weighted Average Share Price per Market	Number of Options Exercisable
\$ 0.10	1,489,152	2.85	\$ 0.05	\$ 0.06	602,494

Details regarding the options outstanding as at December 31, 2011 are as follows:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Grant Date Fair Value	Weighted Average Share Price per Market	Number of Options Exercisable
\$ 0.45	215,328	0.08	\$ 0.41	\$ 0.00	215,328
\$ 0.15	70,327	0.48	\$ 0.04	\$ 0.06	70,327
\$ 0.15	451,990	1.46	\$ 0.05	\$ 0.15	366,000
\$ 0.21	11,666	2.24	\$ 0.06	\$ 0.15	5,833
\$ 0.30	16,666	0.19	\$ 0.15	\$ 0.21	8,333
	765,977	0.97	\$ 0.15	\$ 0.10	665,821

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**6. SHARE CAPITAL** (continued)

**c) Stock options** (continued)

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. The fair value of stock options granted is recognized in income on a graded vesting basis. Option pricing models require the input of highly subjective input assumptions, which can materially affect the fair value estimate and therefore the existing models do not necessarily provide reliable a single measure of the fair value of the Company's stock options.

The weighted average grant fair value of 1,489,152 options granted on November 8, 2012 was \$0.05. The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 1.13%; the expected life of 2.6 years; expected volatility of 212%; and expected dividends of \$Nil.

The weighted average grant fair value of 428,324 options granted on January 4, 2012 was \$0.04. The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 1.00%; the expected life of 2 years; expected volatility of 177%; and expected dividends of \$Nil.

The weighted average grant fair value of 11,667 (35,000 pre-consolidation) options granted on March 29, 2011 was \$0.15 (\$0.05 pre-consolidation). The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 2.62%; the expected life of 3 years; expected volatility of 134%; and expected dividends of \$Nil.

The weighted average grant fair value of 16,667 (50,000 pre-consolidation) options granted on March 1, 2011 was \$0.06 (\$0.02 pre-consolidation). The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 2.62%; the expected life of 1 year; expected volatility of 90%; and expected dividends of \$Nil.

**d) Share purchase warrants**

The continuity of share purchase warrants on a post-consolidation basis is as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Expiry date</b>	<b>Remaining life (years)</b>
Private placement	2,300,000	\$0.150	December 23, 2012	-
Private placement	1,133,333	\$0.225	June 7, 2013	0.43
<b>Balance, December 31, 2011</b>	<b>3,433,333</b>	<b>\$0.174</b>		
Private placement	12,000,000	\$0.100	May 1, 2014	1.33
Broker warrants	32,000	\$0.100	May 1, 2013	0.33
Expired	(2,300,000)	\$0.150		
<b>Balance, December 31, 2012</b>	<b>13,165,333</b>	<b>\$0.111</b>	<b>-</b>	<b>1.25</b>

**e) Plan of arrangement – spin off (Note1)**

Upon the completion of POA under the Business Corporation Act of British Columbia, after the Company received approval from its shareholders and the Supreme Court of British Columbia, the Company transferred the Kirkland-Lake Properties with book value of \$225,289 (Note 5(b)) to KPM. The shareholders of the Company receive one KPM common share for every NVG common share held as of October 15, 2012. Option and warrant holders were allowed to exercise their options and warrants prior to the completion of the POA in order to participate in the POA. The transaction has been recorded as a reduction of share capital.

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**7. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2012, the Company entered into the following transactions with related parties.

**Key Management personnel compensation**

No remuneration was paid during the years ended December 31, 2012 and 2011 to any key management personnel. Instead, the Company pays a management fee and administrative charges, including the services of its key management personnel, to Mineral Hill Industries Ltd, a company listed on the TSX Venture, which has common directors and officers.

During the year ended December 31, 2012, the Company incurred \$134,197 (2011: \$105,790) with respect to the foregoing.

**Other related party transactions**

During the year ended December 31, 2012, the Company issued 50,000 shares (2011: Nil) valued at \$3,000 (2011:\$Nil) to Golden Dawn Minerals Inc., a company having a common director during that period, with regard to the option agreement on the Kirkland Lake Project. The Company also accrued \$nil (2011: \$22,096) payable to the Chief Executive Officer with respect to expenses incurred on behalf of the Company.

The amounts outstanding to related parties with respect to the above were as follows;

	<b>December 31, 2012</b>	December 31 2011
Krypt-Logx Network Corp.	\$ -	\$ 6,804
Mineral Hill Industries Ltd. (in Accounts Payable)	<b>25,638</b>	3,943
GMM Admin Corp.	<b>786</b>	-
Dieter Peter (Chief Executive Officer)	-	22,096
Golden Dawn Minerals Inc.	-	944
	<b>\$ 26,424</b>	<b>\$ 33,787</b>

The amount outstanding due from related party was as follows:

	<b>December 31, 2012</b>	December 31 2011
Kirkland Precious Metals Corp.	\$ <b>3,100</b>	\$ -
Global Environomic Systems Corp.	<b>100</b>	-
	<b>\$ 3,200</b>	<b>\$ -</b>

These transactions are measured at exchange amounts, which are the amounts of consideration negotiated, established and agreed to by the related parties.

**Advances from related party**

During the year ended December 31, 2012, the Company entered into loan agreements with Merfin Management Limited ("Merfin"), a private company with a common director for loan totalling \$20,000. Under the terms of agreements, the amount is unsecured and bears interest at 8.50% per annum.

During the year ended December 31, 2012, the Company

- (i) incurred a further \$5,439 (2011: \$7,326) in interest on the outstanding loans
- (ii) repaid a total of \$300,000 in outstanding loans and accrued interest \$24,526.

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**7. RELATED PARTY TRANSACTIONS (continued)**

**Advances from related party (continued)**

At December 31, 2012, the outstanding loan and accrued interest balance is \$20,000 (December 31, 2011:\$ 299,087).

	<b>December 31 2012</b>	December 31 2011
Loan payable	\$ 20,000	280,000
Interest payable	-	19,087
	<b>\$ 20,000</b>	299,087

During the year ended December 31, 2012, the Company issued Nil (2011:125,000) common shares, valued at \$Nil (2011: \$18,750), as a bonus interest pursuant to the terms of the loan agreements signed in 2009.

**8. INCOME TAXES**

In assessing deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment and concluding the deferred tax assets were not realized.

	<b>For the years ended</b>	
	<b>December 31 2012</b>	<b>December 31 2011</b>
Canadian statutory income tax rate	25.00%	26.50%
	<b>\$</b>	<b>\$</b>
Income tax recovery at statutory rate	(85,063)	(250,249)
Effect on income taxes of:		
Permanent differences	13,342	5,526
Change in tax rate	8,816	13,642
Losses not recognized	62,905	231,081
Income taxes recoverable	-	-

The nature and effect of the Company's deferred tax assets (liabilities) is as follows:

	<b>December 31 2012</b>	<b>December 31 2011</b>
	<b>\$</b>	<b>\$</b>
Non capital losses carried forward	466,226	395,945
Capitalized costs in excess of mineral cost pools	76,321	96,314
Property and equipment	955	955
Share issuance costs	1,440	-
Deferred tax assets	544,942	493,214
Deferred tax assets not recognized	(544,942)	(493,214)
Net deferred tax asset	-	-

**8. INCOME TAXES** (continued)

As at December 31, 2012, the Company had non-capital losses carried forward of approximately \$1,864,902 (2011: \$1,583,778) which may be applied to reduce future years' taxable income, expiring as follows:

2015	\$	17,821
2026		246,823
2027		331,504
2028		268,312
2029		205,964
2030		280,124
2031		233,230
2032		281,124
	\$	<u>1,864,902</u>

**9. FINANCIAL INSTRUMENTS AND RISKS**

The Company's financial instruments consist of cash and equivalents, amounts receivable from related parties, accounts payable and amounts payable to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

*Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, marketable securities, receivables and due from related parties. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions. Amounts due to and from related parties are discussed in Note 7.

*Currency risk*

The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options, warrants and/or the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the sale of equity securities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets in Canada have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

*Interest rate risk*

The Company normally invests in short-term interest bearing financial instruments. There is a minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificate included in cash and equivalents as they are currently held in large financial institutions.

**9. FINANCIAL INSTRUMENTS** (continued)

**Fair value measurements of financial assets and liabilities**

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

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

The fair values of cash and cash equivalents are determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of due to and from related parties and accounts payable, approximate their current fair values because of their nature and relatively short maturity dates or durations.

Assets measured at fair value on a recurring basis were presented on the Company’s balance sheet as of December 31, 2012 as follows:

	Fair Value Measurements Using			December 31, 2012
	Level 1	Level 2	Level 3	
Cash and equivalents	\$ 7,853	–	–	\$ 7,853

**10. CAPITAL MANAGEMENT**

The Company’s capital structure consists of shareholders’ equity and related party loans. The Company’s objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company’s approach to capital management during the year ended December 31, 2012. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its exploration plan and ultimately the development of its business, and will need to raise adequate capital by obtaining equity financing through private placement or debt financing. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

**11. SUPPLEMENTAL CASH FLOW DISCLOSURE**

During the year ended December 31, 2012, the Company issued:

- a) 50,000 common shares (2011: 100,000), valued at \$3,000 (2011: \$6,500) with respect to obligations under property option agreements;
- b) Nil common shares (2011: 375,000) valued at nil (2011: \$18,750) pursuant to loan agreements (Note 7); and
- c) 32,000 broker warrants (2011: nil), valued at \$1,277 (2011: \$Nil) (Note 6(b)).



**12. SUBSEQUENT EVENTS**

- a) Subsequent to December 31, 2012, the Company received \$51,000 in loans from Merfin Management Limited in accordance with an agreement signed on March 18, 2013. Under the terms of agreements, the amounts are unsecured and bear interest of 8.50% per annum commencing on the first day of the month subsequent to the month of the advance.
- b) In February 2013, the Company issued 33,333 common shares to Golden Dawn Minerals Inc. as part of its commitment payment for the Kirkland mineral properties that were spun-off.