



Condensed interim consolidated financial statements

As at and for the nine months ended September 30, 2012 and 2011

(Interim financial information is unaudited)

(Financial information expressed in Canadian dollars unless otherwise noted)

Notice to reader

These unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2012 have not been reviewed by an independent reviewer. They have been prepared by Josephine Mining Corp.'s management in accordance with accounting principles generally accepted in Canada, consistent with prior periods. These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2011.

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Josephine Mining Corp. (an exploration stage company)
Consolidated statements of financial position
As at the interim period ended September 30, 2012 and as at December 31, 2011
(Interim period is unaudited; presented in Canadian dollars)

	Notes	September 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		\$ 3,447	\$ 728,272
Prepaid expenses		20,926	56,623
Accounts receivable		1,931	4,527
Total current assets		26,304	789,422
Non-current assets			
Property and equipment	4	44,332	80,027
Mineral properties	5(a)	7,343,923	7,293,077
Deposits		3,000	78,849
Total non-current assets		7,391,255	7,451,953
Total assets		\$ 7,417,559	\$ 8,241,375
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		\$ 301,269	\$ 712,534
Due to related parties	7(g)	210,054	68,185
Notes payable to related party	7(b)	52,108	-
Convertible note payable to related party	7(c)	28,193	-
Total current liabilities		591,624	780,719
Shareholders' equity			
Share capital	6(b)	7,264,401	7,264,401
Shares issuable	6(c)	12,500	-
Contributed surplus	6(f)	901,837	678,299
Warrants	6(e)	3,502,935	3,502,935
Accumulated deficit		(4,737,428)	(4,083,769)
Accumulated other comprehensive income (loss)		(118,310)	98,790
Total shareholders' equity		6,825,935	7,460,656
Total liabilities and shareholders' equity		\$ 7,417,559	\$ 8,241,375
Going concern	2		
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The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved on behalf of the Board of Directors:

"SIGNED"

Robert L. Russell
Director

"SIGNED"

James O'Neil
Director

Josephine Mining Corp. (an exploration stage company)
Interim consolidated statements of comprehensive loss
Three and nine months ended September 30, 2012 and 2011
(Unaudited and presented in Canadian dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Notes	2012	2011	2012	2011
Operating expenses					
General and administrative		\$ 275,861	\$ 610,433	\$ 844,691	\$ 1,262,843
Exploration		27,126	67,868	60,836	187,126
Share-based payments	6(f)	25,575	145,421	202,198	333,308
Depreciation	4	5,342	8,554	18,423	11,816
Total operating expenses		\$ 333,904	\$ 832,276	\$ 1,126,148	\$ 1,795,093
Other income and expense					
Other income (expense)	7(f)	\$ 432,869	\$ 8,205	\$ 433,068	\$ 24,225
Public company listing		-	-	-	(458,329)
Foreign exchange income (expense)		(29)	5,885	39,421	533
Total other income (loss)		\$ 432,840	\$ 14,090	\$ 472,489	\$ (433,571)
Net income (loss)		\$ 98,936	\$ (818,186)	\$ (653,659)	\$ (2,228,664)
Other comprehensive income (loss)		(100,306)	241,521	(217,100)	220,932
Total comprehensive income (loss)		\$ (1,370)	\$ (576,665)	\$ (870,759)	\$ (2,007,732)
Net income (loss) per common share, basic		\$ 0.00	\$ (0.03)	\$ (0.03)	\$ (0.11)
Weighted average common stock shares outstanding, basic		25,451,010	25,451,010	25,451,010	20,898,428
Net income (loss) per common share, diluted		\$ 0.00	\$ (0.03)	\$ (0.03)	\$ (0.11)
Weighted average common stock shares outstanding, diluted		25,468,592	25,451,010	25,451,010	20,898,428

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

Josephine Mining Corp. (an exploration stage company)
Interim consolidated statements of changes in equity
Nine months ended September 30, 2012 and 2011
(Unaudited and presented in Canadian dollars)

	Shares	Share capital	Shares issuable	Warrants	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2011	10,500,010	\$ 1,720,880	\$ -	\$ 46,825	\$ -	\$ (1,086,849)	\$ (79,040)	\$ 601,816
Additional capital contributed	-	79,119	-	-	-	-	-	79,119
Unit offering shares and warrants less issuance costs	14,000,000	4,985,938	-	1,214,031	-	-	-	6,199,969
0890810 B.C. Ltd. shares eliminated	(10,500,010)	-	-	-	-	-	-	-
Qualifying Transaction	10,500,010	425,000	-	2,243,293	-	-	-	2,668,293
Green Park shares acquired	850,000	-	-	-	-	-	-	-
Incentive stock options	-	-	-	-	8,972	-	-	8,972
Corporate finance units and agent compensation	75,000	37,500	-	-	174,226	-	-	211,726
Warrants exercised	7,000	6,464	-	(1,214)	-	-	-	5,250
Options exercised	19,000	9,500	-	-	-	-	-	9,500
Share based payments	-	-	-	-	324,336	-	-	324,336
Other comprehensive loss for the period	-	-	-	-	-	-	220,932	220,932
Net loss for the period	-	-	-	-	-	(2,228,664)	-	(2,228,664)
Balance, September 30, 2011	25,451,010	\$ 7,264,401	\$ -	\$ 3,502,935	\$ 507,534	\$ (3,315,513)	\$ 141,892	\$ 8,101,249
Balance, January 1, 2012	25,451,010	\$ 7,264,401	\$ -	\$ 3,502,935	\$ 678,299	\$ (4,083,769)	\$ 98,790	\$ 7,460,656
Shares issuable	-	-	12,500	-	-	-	-	12,500
Share based payments	-	-	-	-	202,198	-	-	202,198
Equity component of convertible note payable	-	-	-	-	21,340	-	-	21,340
Foreign exchange translation loss for the period	-	-	-	-	-	-	(217,100)	(217,100)
Net loss for the period	-	-	-	-	-	(653,659)	-	(653,659)
Balance, September 30, 2012	25,451,010	\$ 7,264,401	\$ 12,500	\$ 3,502,935	\$ 901,837	\$ (4,737,428)	\$ (118,310)	\$ 6,825,935

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

Josephine Mining Corp. (an exploration stage company)
Interim consolidated statements of cash flows
Nine months ended September 30, 2012 and 2011
(Unaudited and presented in Canadian dollars)

		Nine months ended September 30,	
	Notes	2012	2011
Cash flows from operating activities			
Net loss		\$ (653,659)	\$ (2,228,664)
Share-based payments	6(f)	202,198	333,308
Shares issued for financing fees	6(c)	12,500	-
Public company listing expense		-	458,329
Foreign currency translation		(218,251)	220,932
Depreciation		18,423	11,816
Gain on disposal of equipment		(5,773)	-
Changes in assets and liabilities			
Decrease (increase) in prepaid expenses		35,697	(37,717)
Decrease (increase) in accounts receivable		2,596	(1,883)
Reversal of undeclared bonus and vacation accruals		(407,847)	-
Increase (decrease) in accrued liabilities - related parties		141,869	(203,752)
Return of operating deposits		75,849	-
Net cash used by operating activities		\$ (796,398)	\$ (1,447,631)
Cash flows from investing activities			
Purchase of property and equipment		\$ -	\$ (100,386)
Disposal of property and equipment		24,196	-
Payments toward mineral properties		(29,506)	(2,926,543)
Changes in non-cash working capital		(3,418)	645,186
Payments of deposits		-	(98,487)
Net cash used by investing activities		\$ (8,728)	\$ (2,480,230)
Cash flows from financing activities			
Short-term debt financing	7(b)(c)	\$ 80,301	\$ -
Qualifying transaction and unit financing		-	6,432,360
Net cash provided by financing activities		\$ 80,301	\$ 6,432,360
Increase (decrease) in cash and cash equivalents		\$ (724,825)	\$ 2,504,499
Cash, beginning of period		728,272	16,022
Cash, end of period		\$ 3,447	\$ 2,520,521
Cash comprised of:			
Cash		\$ 3,447	\$ 835,278
Cash equivalents		-	1,685,243
Total cash and cash equivalents		\$ 3,447	\$ 2,520,521

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

1. Nature and continuance of operations

Josephine Mining Corp. (the "Company") (formerly Green Park Capital Corp.) was incorporated on June 4, 2007, under the Business Corporations Act of British Columbia and is in the exploration stage. The registered office of the Company is 1000 - 595 Burrard Street - P.O. Box 49290 - Vancouver, British Columbia, Canada V7X 1S8. On March 24, 2011, the Company completed its Qualifying Transaction (details of which can be found in the Company's December 31, 2011, consolidated financial statements). Since the Qualifying Transaction, the Company's sole activities have related to the retention and exploration of mineral properties known as the Turner Gold Property located in southern Oregon, the Company's only mineral asset.

In connection with the Qualifying Transaction, the Company changed its name to Josephine Mining Corp., ceased to be a Capital Pool Company as defined in Policy 2.4 of the Exchange and commenced trading as a Tier 2 mining issuer on the TSX Venture Exchange (the "Exchange") on March 29, 2011. On commencement of trading, the Company's trading symbol changed from "GRP.H" to "JMC."

2. Going concern

These condensed interim consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and discharge of liabilities in the normal course of business. As shown in the accompanying condensed interim consolidated financial statements, the Company has had no operating revenues and has incurred an accumulated deficit of \$4,737,428 through September 30, 2012 (December 31, 2011 - \$4,083,769). Further, the Company has a working capital deficit of \$565,320 as at September 30, 2012 (December 31, 2011 - positive working capital of \$8,703). These factors raise doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon obtaining necessary financing to complete exploration activities and placement of a mineral property into commercial production. Management intends to complete additional financing, but while the Company has been successful in raising funds from related parties and other private parties in the past, there can be no assurance that it will be able to do so in the future. There can be no objective reliance on continuing support from related parties, which has been essential for the Company's development. The condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

3. Significant accounting policies

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") and its interpretations including International Accounting Standards ("IAS") prevailing as of September 30, 2012, as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Company for the year ended December 31, 2011. The disclosures provided below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2011.

These condensed interim consolidated financial statements were approved by the Company's board of directors on November 19, 2012.

(a) Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Issues Committee that are mandatory for accounting periods beginning after January 1, 2012 or later periods. The standards impacted that are applicable to the Company are as follows:

- IFRS 7 – *Financial Instruments Disclosures* requires adoption of amendments for annual periods beginning January 1, 2013.
- IFRS 9 - *Financial Instruments* was issued as the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2015, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting.
- IFRS 10 - *Consolidated Financial Statements* will supersede the consolidation requirements in SIC-12 - *Consolidation – Special Purpose Entities* and IAS 27 - *Consolidated and Separate Financial Statements* effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 13 - *Fair Value Measurement* sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
- IAS 27 – *Consolidation and Separate Financial Statements* is required to be adopted for periods beginning January 1, 2013. IAS 27 applies in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent and in accounting for investments in subsidiaries, jointly controlled entities, and associates when an entity presents separate financial statements.
- IAS 32 - *Financial Instruments Offsetting Financial Assets and Financial Liabilities*. The amendment provides further clarification on the application of the offsetting requirements. The Company will start the application of IAS 32 in the financial statements effective January 1, 2014.

Management is evaluating the impact of these standards, and does not expect any material effects on the Company's financial statements as a result of their adoption.

4. Property and equipment

	Software	Equipment	Vehicles	Total
Cost				
Balance, December 31, 2011	\$ 46,533	\$ 26,803	\$ 26,512	\$ 99,848
Disposals	-	(24,196)	-	(24,196)
Balance, September 30, 2012	\$ 46,533	\$ 2,607	\$ 26,512	\$ 75,652
Accumulated depreciation				
Balance, December 31, 2011	\$ 10,341	\$ 5,503	\$ 3,977	\$ 19,821
Depreciation expense	11,437	3,077	3,910	18,423
Disposals	-	(6,924)	-	(6,924)
Balance, September 30, 2012	\$ 21,778	\$ 1,656	\$ 7,887	\$ 31,320
Net book value, December 31, 2011	\$ 36,192	\$ 21,300	\$ 22,535	\$ 80,027
Net book value, September 30, 2012	\$ 24,755	\$ 951	\$ 18,625	\$ 44,332

There were no circumstances requiring impairment loss to be recognized during the nine months ended September 30, 2012.

5. Mineral properties

The Company has entered into two option to purchase agreements.

(a) Mineral property components

At September 30, 2012, Mineral Properties were comprised of the following:

	September 30, 2012	December 31, 2011
Balance, beginning of period	\$ 7,293,077	\$ 1,129,534
Option and land payments (i)	49,185	642,016
Warrant-based payments	-	2,243,293
Exploration expenditures	179,941	3,278,234
Exchange rate variances	(178,280)	-
Balance, September 30, 2012	\$ 7,343,923	\$ 7,293,077

- (i) The Company owns land adjacent to the Company's mineral project which was acquired for total payments of US\$325,000.

(b) General Moly, Inc. ("GMI") option to purchase agreement ("Turner Option")

On June 26, 2009, the Company entered into the Turner Option agreement with GMI for land, patented mining claims and unpatented mining claims at the Turner Gold Property in Josephine County, Oregon, USA for US\$2,000,000, originally to be paid by December 2011.

The agreement was amended and extended through subsequent agreements; the following table summarizes these payments:

Payment	Date	Extension fee	Credit to purchase price	Total payment, US\$
Initial payment	June 2009	\$ -	\$ 100,000	\$ 100,000
1st extension payment	December 2010	-	300,000	300,000
2nd extension payment	December 2011	50,000	250,000	300,000
3rd extension payment	September 2012	50,000	-	50,000
4th extension payment (i)	October 2012	50,000	-	50,000
Total		\$ 150,000	\$ 650,000	\$ 800,000

- (i) This payment was made subsequent to September 30, 2012, using funds raised through the issuance of the convertible note payable described at Note 7(c).

Following the October 2012 payment, US\$1,350,000 is due on December 1, 2012, in order for JMC to purchase the property under the Turner Option. If the Company does not exercise the option to purchase the Turner Gold Property, all amounts paid by the Company are forfeited.

During the option term, the Company will have possession of and maintain the Turner Gold Property, including paying all claim maintenance fees. GMI retains a production royalty of 1.5% of net smelter return on future production from the Turner Gold Property.

(c) Wagner Timber Enterprises, LLC ("Wagner") option to purchase agreement ("Wagner Option")

On June 30, 2009, the Company acquired an exclusive option to purchase approximately 333 acres of land in Josephine County, Oregon, for a 12 month period commencing June 18, 2011. The Company paid US\$25,000 for this option, which applies against the purchase price of US\$925,000.

Subsequent to September 30, 2012, the Company renegotiated a US\$30,000 extension payment which was due September 30, 2012 (Note 11); the amended due date is January 30, 2013. If the Company does not make this payment, it will re-attach mineral rights to the property and receive US\$15,000 from Wagner. If the Company makes the extension payment by the due date, the Company will pay Wagner the net amount of US\$15,000, and in the event that the Company does not complete the Wagner Option purchase, Wagner will acquire the mineral rights. The following schedule identifies future payments necessary for the Company to complete the Wagner Option purchase:

Payment	Scheduled due date	Extension fee, US\$	Credit to purchase price	Total payment, US\$
1st extension	January 30, 2013	\$ 5,000	\$ 25,000	\$ 30,000
2nd extension	June 30, 2013	-	50,000	50,000
Purchase payment	June 30, 2015	-	825,000	825,000
Total		\$ 5,000	\$ 900,000	\$ 905,000

6. Share capital and reserves

(a) Authorized share capital

As of September 30, 2012, the Company's authorized share capital was comprised of an unlimited number of common shares and preferred shares without par value.

(b) Common shares

There were no share issuances during the nine months ended September 30, 2012; shares were issued subsequent to this date (Note 11).

(c) Shares issuable

On September 26, 2012, the Company agreed to issue 100,000 shares ("finance shares") to Russell Mining Corp. ("RMC") as part of a convertible note payable agreement (Note 7(c)). The finance shares were valued at the agreement date fair value of \$0.125 and were issuable upon Exchange approval. Subsequent to September 30, 2012, the Exchange approved the share issuance.

(d) Escrowed shares

In connection with the Qualifying Transaction, all shares held in escrow at March 24, 2011, have been consolidated on the basis of one post-consolidation share for every five pre-consolidation shares, resulting in a total of 250,000 shares held in escrow upon completion of the Qualifying Transaction. An additional 10,500,010 shares were purchased by a major shareholder through the private placement and were put into escrow as per an escrow agreement dated March 24, 2011.

After the completion of a Qualifying Transaction, as required by the British Columbia Securities Commission and the Exchange, the escrowed shares will be released pro rata to the escrow shareholders as follows:

- i) 10% - upon final exchange approval to a Qualifying Transaction by the Company (March 24, 2011);
- ii) 15% - 6 months following the initial release (September 24, 2011);
- iii) 15% - 12 months following the initial release (March 24, 2012);
- iv) 15% - 18 months following the initial release (September 24, 2012);
- v) 15% - 24 months following the initial release (March 24, 2013);
- vi) 15% - 30 months following the initial release (September 24, 2013); and
- vii) 15% - 36 months following the initial release (March 24, 2014).

The number of shares in escrow at September 30, 2012, was 4,725,006 (December 31, 2011- 7,875,008).

(e) Warrants

There were no warrants issued, exercised, or expired during the nine months ended September 30, 2012. A summary of outstanding warrants is as follows:

Exercise price	Number issued	Number exercised	Expired, forfeited	Remaining	Number exercisable	Weighted average exercise price
\$ 0.75	7,037,500	7,000	-	7,030,500	7,030,500	\$ 0.75
1.50	5,250,000	-	-	5,250,000	5,250,000	1.50
2.00	5,250,000	-	-	5,250,000	5,250,000	2.00
	17,537,500	7,000	-	17,530,500	17,530,500	\$ 1.35

Of the issued warrants, 10,500,000 warrants are subject to the same escrow schedule as the shares discussed at Note 6(d). There were 4,725,000 warrants in escrow at September 30, 2012 (2011 – 7,875,000).

(f) Stock options

The Company has a stock option plan (the "Plan"), under which it is authorized to grant options to directors, officers, consultants or employees of the Company. The number of options granted under the Plan is limited to 10% in the aggregate of the number of issued and outstanding common shares of the Company at the date of the grant of the options. The board of directors has discretion over the vesting of options.

The issued and outstanding options as at September 30, 2012, were as follows:

	Exercise price range	Number of options outstanding	Weighted average exercise price
Balance, January 1, 2012	\$ 0.30 - 1.00	3,154,000	\$ 0.53
Stock options forfeited by officers, directors and employees	0.50 - 1.00	(525,000)	0.59
Balance, September 30, 2012		2,629,000	\$ 0.51
Options exercisable at September 30, 2012	\$ 0.30 - 0.60	1,795,667	\$ 0.51

The options exercisable include 735,000 options issued to agents during Qualifying Transaction.

The following share options were outstanding and exercisable as of September 30, 2012:

Exercise Price	Number Outstanding	Weighted Average Life (Years)	Weighted Average Exercise Price - (Outstanding)	Number Exercisable	Weighted Average Exercise Price - (Exercisable)
\$ 0.30	19,000	0.49	\$ 0.30	19,000	\$ 0.30
0.50	2,210,000	2.52	0.50	1,510,000	0.50
0.60	400,000	3.71	0.60	266,667	0.60
	2,629,000	2.68	\$ 0.51	1,795,667	\$ 0.51

Share-based payment expense of \$202,198 for the period ending September 30, 2012, and contributed capital of \$21,340 attributable to equity component of the convertible note payable (Note 7(c)) comprise the additions to contributed capital.

7. Related party transactions

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

The following entities transacted with the Company in the reporting period of these Financial Statements. The terms and conditions of the transactions with key management personnel and their related parties were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities at an arm's length basis.

(a) Transactions with key management and directors

The key managers, with the power and responsibility, directly or indirectly, to plan, direct and control the operations of the Company, including directors, include the following:

The aggregate value of transactions with key management was as follows:

	Nine months ended September 30,			
	2012		2011	
Compensation and director fees	\$	322,955	\$	277,246
Bonus reversal		(257,618)		-
Share-based payments		170,664		265,738
Total	\$	236,002	\$	542,984

Bonuses accrued in 2011 were reversed during the three months ended March 31, 2012.

(b) Notes payable to related party

On May 18, 2012, the Company entered into a note payable agreement for US\$40,000 with the President and Chairman of the board of directors of the Company. The note accrues interest at prime plus two percent (2%) per annum. The principal and accrued interest were originally due on November 17, 2012. The Company did not make any payments against the principal and accrued interest by the maturity date. Because the terms of the loan did not specify any default or late payment penalties, the Company will continue to accrue interest until the note is settled.

On August 1, 2012, the Company entered into a note payable agreement with the President and Chairman of the board of directors of the Company for US\$12,100. The principal and accrued interest are payable on November 30, 2012. Interest accrues at prime plus two percent (2%) per annum. The note matures November 30, 2012. Proceeds of the note were used to settle certain accounts payable.

(c) Convertible note payable

On September 26, 2012, the Company issued a note payable to RMC for US\$50,000. The principal and accrued interest are payable March 26, 2013. RMC was issued 100,000 shares as part of the consideration for the note (Note 7(f)), and may convert the note at US\$0.125 per one common share.

(d) Finder's Agreement

On June 22, 2009, the Company entered into a finder's agreement with Russell Mining and Minerals, ULC. ("RMMU"; formerly Russell Mining and Minerals, Inc.), an entity related through common management, for the mining claims located in Josephine County, Oregon. Pursuant to this agreement, RMMU agreed to advance the Company funds and provide the technical support to complete a reserve study on the claims. The agreement also contemplates RMMU and the Company entering into a management agreement for RMMU to provide technical and administrative services to the Company (Note 7(e)).

When production begins on the property, USD\$1,500,000 is due to RMMU in 24 equal installments. Pursuant to the Qualifying Transaction, the Company issued 10,500,010 common shares (Note 6(d)) and 10,500,000 warrants (Note 6(e)) to RMMU under the finder's agreement terms.

(e) Consulting Agreement

The Company is party to a consulting agreement with RMC (agreement formerly with RMMU) dated April 15, 2009, pursuant to which RMC provided services and office space. The Company incurred approximately \$200,000 in consulting fees payable to RMC during the nine months ended September 30, 2012 (2011 – \$150,000). Other office rent and other general expenses repayable to RMC during the nine months ended September 30, 2012 totaled approximately \$208,000 (2011 -\$13,000). Management fees payable of \$200,000 and approximately \$197,000 of other payables were forgiven by or settled by RMMU (Note 7(f)).

This agreement was terminated in September 2012.

(f) Exchange agreement with RMC and RMMU

Pursuant to a September 26, 2012, agreement ("Exchange Agreement") between the Company, RMC and RMC's subsidiary, RMMU, RMMU forgave approximately \$397,000 in accounts payable due from the Company and paid approximately \$47,000 to a third party on behalf of the Company. The convertible note payable described at Note 7(c) and the financing shares described at Note 6(c) were issued as part of the consideration of the agreement. The forgiven payables were recognized as other income in the statement of comprehensive loss for the nine months ended September 30, 2012. The Company gave RMMU intellectual mining exploration property as part of the transaction.

(g) Other related parties

Amounts payable to related parties:

	September 30, 2012	December 31, 2011
SAGC (i)	\$ 124,076	\$ 16,707
RMC	56,721	35,988
Norton Rose (ii)	29,257	15,490
Totals	\$ 210,054	\$ 68,185

- (i) The Company utilizes the services of corporate employees of St. Augustine Gold and Copper Limited ("SAGC") and its subsidiaries. The Company incurred approximately \$109,000 in labor and other expenses repayable to SAGC during the nine months ended September 30, 2012 (2011 – nil).
- (ii) The Company's legal counsel, Norton Rose Canada LLP ("Norton Rose") is a related party because a principal of Norton Rose is the corporate secretary. Norton Rose billed the Company approximately \$42,000 during the nine months ended September 30, 2012.

The above transactions were conducted in the normal course of operations and measured at the agreed upon exchange amounts.

8. Capital risk management

The following table summarizes capital under the Company's capital management program:

	September 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 3,447	\$ 728,272
Prepaid expenses	20,926	56,623
Accounts receivable	1,931	4,527
Accounts payable	301,269	712,534
Due to related parties	210,054	68,185
Notes payable to related party	52,108	-
Convertible note payable to related party	28,193	-
Share capital	7,264,401	7,264,401
Shares issuable	12,500	-
Contributed surplus	901,837	678,299
Warrants	3,502,935	3,502,935

The Company's objectives when managing capital are to safeguard the Company's ability to continue exploration of its mineral property and to maintain a flexible capital structure which optimizes the costs of capital.

The Company is not subjected to any internally or externally imposed capital requirements.

Management implements adjustments according to changes in economic conditions and risk characteristics of capital instruments. To maintain or adjust the capital structure, the Company may attempt to issue new shares and acquire or dispose of assets.

When available cash permits, the Company invests in highly liquid, short-term interest-bearing investments.

9. Earnings (loss) per share ("EPS")

(a) Schedule of inputs to EPS calculations

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Basic EPS numerator - net income (loss)	\$ 98,936	\$ (818,186)	\$ (653,659)	\$ (2,228,664)
Basic EPS denominator - weighted average shares	25,451,010	25,451,010	25,451,010	20,898,428
Basic EPS	\$ 0.00	\$ (0.03)	\$ (0.03)	\$ (0.11)
Diluted EPS numerator - net income (loss)	\$ 65,096	\$ (818,186)	\$ (653,659)	\$ (2,228,664)
Diluted EPS denominator - weighted average shares	25,472,988	25,451,010	25,451,010	20,898,428
Diluted EPS	\$ 0.00	\$ (0.03)	\$ (0.03)	\$ (0.11)

The Company reported net income for the three months ended September 30, 2012, principally as a result of debt forgiven (Note 7(f)); the Company reported net loss in all other periods presented in the accompanying statements of comprehensive loss. Accordingly, there were no differences between basic and diluted loss per share for these periods. The following table reconciles diluted EPS inputs to basic EPS inputs for the three months ended September 30, 2012.

(b) Reconciliation of diluted EPS to basic EPS

	Net income	Weighted average shares
Diluted EPS	\$ 65,096	25,472,988
Adjust: Assumed conversion of note payable	21,340	(17,582)
Adjust: Shares subject to Exchange approval	12,500	(4,396)
Basic EPS	\$ 98,936	25,451,010

The reconciling items between basic and diluted EPS result from the assumed conversion of the Company's convertible note payable (Note 7(c)) and the issuance of bonus shares as part of the same transaction.

(c) Items potentially dilutive

The Company has warrants and options which could be dilutive in the future which were not dilutive during the three or nine months ended September 30, 2012. These include the following items:

Item	Number	Weighted average exercise price / value per share
Warrants	17,530,500	\$ 1.35
Options	2,626,000	0.51
Total	20,156,500	\$ 1.24

(d) Subsequent transactions

There were no share transactions after September 30, 2012, which, if included in the above EPS calculations, would significantly change EPS.

10. Comparative figures

Certain comparative figures have been reclassified to conform to current year presentation.

11. Subsequent events

On June 26, 2012, the Company initiated a private placement to raise funds for the continued permitting of the Turner Gold project. The Company received limited funds as subscriptions in contemplation of the private placement; subsequent to

September 30, 2012, the private placement was abandoned and the funds were returned and no shares were ever issued. The funds received were excluded from the consolidated statement of financial position as at September 30, 2012.

In October 2012, the Company issued a promissory note payable to the Company's President in exchange for US\$50,000. The note matures April 14, 2013 and accrues interest at the prime rate plus 2% per annum. The funds were used to make a payment against the Turner Option described at Note 5(a); this payment extended the purchase price payment of US\$1,350,000 to December 1, 2012.

On October 15, 2012, the Company entered into an agreement with respect to the Wagner Option (Note 5(c)). The agreement extends a US\$30,000 option extension payment originally due September 30, 2012 to January 30, 2013. As part of the extension arrangement, Wagner has agreed to pay US\$15,000 for the Company to re-attach mineral rights to the property. Accordingly, the Company is scheduled to make a net payment of US\$15,000, and Wagner retains the mineral rights to the property if the Company does not complete the purchase.