Josephine Mining Corp

Consolidated financial statements

As at and for the years ended December 31, 2012 and 2011

(Financial information expressed in Canadian dollars unless otherwise noted)

Management’s Responsibility for Financial Statements

In management’s opinion, the accompanying consolidated financial statements of Josephine Mining Corp. have been prepared within reasonable limits of materiality and in accordance with International Financial Reporting Standards. The determination of many assets and liabilities necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to April 30, 2013. Management is responsible for all information in the annual report and for the consistency, therewith, of all other financial and operating data presented in this report.

To meet its responsibility for reliable and accurate financial statements, management has established and monitors systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management’s authorization.

The consolidated financial statements have been audited by MNP LLP, Independent Registered Chartered Accountants. Their responsibility is to express a professional opinion on the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards. The Independent Registered Chartered Accountants Report outlines the scope of its audit and sets forth its opinion.

Josephine Mining Corp.’s Audit Committee, consisting exclusively of independent directors, has reviewed these statements with management and the Independent Registered Chartered Accountants and has recommended their approval to the Board of Directors. The Board of Directors has approved the consolidated financial statements herein.

“SIGNED”

Robert Russell

President and Chief Executive Officer

“SIGNED”

Matt Colbert

Chief Financial Officer

Spokane, Washington

April 30, 2013

To the Shareholders of Josephine Mining Corp.:

We have audited the accompanying consolidated financial statements of Josephine Mining Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended and notes compromising a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these 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 an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence obtained in 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 Josephine Mining Corp. and its subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter- Going Concern
Without qualifying our opinion, we draw attention to Note 2 of the consolidated financial statements which indicates that the Company has negative working capital of $1,105,817. This condition indicates the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern.

MNP LLP

Calgary, Alberta
April 30, 2013

Chartered Accountants

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MNP

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Notes to the consolidated financial statements

Josephine Mining Corp. (an exploration stage company)
Consolidated statements of financial position
As at December 31, 2012 and 2011
(Presented in Canadian dollars)

	Notes	December 31, 2012	2011
Assets			
Current assets			
Cash and cash equivalents		$ 4,596	$ 728,272
Prepaid and other current assets		9,289	61,150
Deferred interest expense	7(b)	41,385	-
Total current assets		55,270	789,422
Non-current assets			
Property and equipment	5	39,323	80,027
Mineral properties	6(a)	7,847,658	7,293,077
Deposits		1,492	78,849
Total non-current assets		7,888,473	7,451,953
Total assets		**$ 7,943,743**	**$ 8,241,375**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		$ 427,559	$ 712,534
Due to related parties	7(g)	228,096	68,185
Note payable to related party	7(b)	454,984	-
Convertible note payable to related party	7(c)	50,448	-
Total current liabilities		1,161,087	780,719
Shareholders' equity			
Share capital	8(b)	7,276,901	7,264,401
Contributed surplus	8(c)	167,722	167,722
Option reserves	8(e)	750,087	504,073
Warrant reserves	8(f)	3,609,239	3,509,439
Accumulated deficit		(4,956,512)	(4,083,769)
Accumulated other comprehensive (loss) income		(64,781)	98,790
Total shareholders' equity		6,782,656	7,460,656
Total liabilities and shareholders' equity		**$ 7,943,743**	**$ 8,241,375**
Going concern	2		
Commitments and contingencies	6,7		
Subsequent events	14		

The accompanying notes are an integral part of these 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)
Consolidated statements of comprehensive loss
Years ended December 31, 2012 and 2011
(Presented in Canadian dollars)

		Year ended December 31,	
	Notes	**2012**	**2011**
Operating expenses			
General and administrative		$ 988,289	$ 1,776,409
Exploration		72,959	275,250
Share-based payments	8(e)	258,514	504,073
Depreciation	5	23,912	19,821
Total operating expenses		$ 1,343,674	$ 2,575,553
Other income and expense			
Other income	7(f)	$ 445,670	$ 26,622
Interest expense		(14,122)	-
Public company listing	3	-	(458,329)
Foreign exchange income (expense)		39,383	(3,857)
Total other income (loss)		$ 470,931	$ (435,564)
Net loss		**$ (872,743)**	**$ (3,011,117)**
Other comprehensive (loss) income		(163,571)	152,281
Total comprehensive loss		**$ (1,036,314)**	**$ (2,858,836)**
Net loss per common share, basic and diluted		$ (0.03)	$ (0.14)
Weighted average common shares outstanding, basic and diluted	9	25,451,010	22,045,928

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

Josephine Mining Corp. (an exploration stage company)
Consolidated statements of changes in shareholders' equity
Years ended December 31, 2012 and 2011
(Presented in Canadian dollars)

	Notes	Shares	Share capital	Contributed surplus	Option reserves	Warrant reserves	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2011		10,500,010	$ 1,720,880	$ -	$ -	$ 46,825	$ (1,072,652)	$ (53,491)	$ 641,562
Additional capital contributed		-	79,119	-	-	-	-	-	79,119
Unit offering shares and warrants, net of issuance costs	3	14,000,000	4,985,938	-	-	1,214,031	-	-	6,199,969
0890810 B.C. ltd. shares eliminated	3	(10,500,010)	-	-	-	-	-	-	-
Qualifying Transaction	3	10,500,010	425,000	-	-	2,243,293	-	-	2,668,293
Green Park shares acquired	3	850,000	-	-	-	-	-	-	-
Corporate Finance Units	3	75,000	37,500	-	-	6,504	-	-	44,004
Agent options to acquire Corporate Finance Units		-	-	167,722	-	-	-	-	167,722
Warrants exercised	8(f)	7,000	6,464	-	-	(1,214)	-	-	5,250
Options exercised	8(f)	19,000	9,500	-	-	-	-	-	9,500
Share based payments		-	-	-	504,073	-	-	-	504,073
Net loss for the year		-	-	-	-	-	(3,011,117)	-	(3,011,117)
Other comprehensive loss for the year		-	-	-	-	-	-	152,281	152,281
Balance, December 31, 2011		25,451,010	$ 7,264,401	$ 167,722	$ 504,073	$ 3,509,439	$ (4,083,769)	$ 98,790	$ 7,460,656
Share based payments	8(b),(e)	100,000	12,500	-	246,014	-	-	-	258,514
Warrants issued for loan fee	8(f)	-	-	-	-	99,800	-	-	99,800
Net loss for the year		-	-	-	-	-	(872,743)	-	(872,743)
Other comprehensive loss for the year		-	-	-	-	-	-	(163,571)	(163,571)
Balance, December 31, 2012		25,551,010	$ 7,276,901	$ 167,722	$ 750,087	$ 3,609,239	$ (4,956,512)	$ (64,781)	$ 6,782,656

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

(Presented in Canadian dollars)

		Year ended December 31,	
	Notes	**2012**	**2011**
Cash flows from operating activities			
Net loss		$ (872,743)	$ (3,011,117)
Share-based payments	8(e)	258,514	504,073
Public company listing expense		-	458,329
Foreign currency translation		(163,722)	152,281
Depreciation	5	23,912	19,821
Gain on disposal of equipment		(4,242)	-
Changes in assets and liabilities			
Decrease (increase) in prepaid and other current assets		51,861	(49,705)
Reversal of undeclared bonus and other compensation accruals		(407,847)	-
Increase (decrease) in due to related parties		159,911	(165,678)
Return of operating deposits		77,357	-
Net cash used by operating activities		(876,999)	(2,091,996)
Cash flows from investing activities			
Purchase of property and equipment		-	(99,848)
Disposal of property and equipment		19,279	-
Payments toward mineral properties		(554,581)	(3,920,250)
Changes in non-cash working capital		122,872	413,465
Payments of deposits		-	(61,352)
Net cash used by investing activities		(412,430)	(3,667,985)
Cash flows from financing activities			
Interest expense		14,122	-
Short-term debt financing	7(b),(c)	551,631	-
Qualifying transaction and unit financing		-	6,472,235
Net cash provided by financing activities		565,753	6,472,235
Increase (decrease) in cash and cash equivalents		(723,676)	712,254
Cash, beginning of year		728,272	16,018
Cash, end of year		**$ 4,596**	**$ 728,272**
Cash comprised of:			
Cash		$ 4,596	$ 425,624
Cash equivalents		-	302,648
Total cash and cash equivalents		**$ 4,596**	**$ 728,272**

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

(Financial information presented in Canadian dollars unless otherwise noted)

1. Nature and continuance of operations

Josephine Mining Corp. (the “Company” or “JMC”) (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 (Note 3), and since that time, 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.”

These consolidated financial statements (“Financial Statements”) were approved by the Company’s board of directors on April 30, 2013.

2. Going concern

These 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 Financial Statements, the Company has had no operating revenues and has incurred an accumulated deficit of $4,956,512 through December 31, 2012 (December 31, 2011- $4,083,769). Further, the Company had a working capital deficit of $1,105,817 as at December 31, 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 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. Qualifying transaction and financing

Pursuant to the terms of the Qualifying Transaction on March 24, 2011, the Company issued 10,500,010 common shares to acquire 100% of the issued and outstanding shares of 0890810 B.C. Ltd. (“0890810”). In addition, the Company issued 14,000,000 common shares to replace 14,000,000 common shares issued by 0854742 B.C. Ltd. (“0854742”) pursuant to a unit offering (the “Unit Offering”) completed concurrent with the Qualifying Transaction. All of 0854742’s 850,000 outstanding shares were acquired by the Company. Each Unit issued consisted of one common share and one half of one common share purchase warrant to acquire one common share at an exercise price of $0.75 before March 24, 2013. The unit price was $0.50, resulting in gross proceeds of $7,000,000, less issue costs of $800,031.

The following table summarizes equity issuances related to the Qualifying Transaction:

Issuance	Common shares	Warrants	Share capital value	Warrant value	Warrant exercise price	Warrant expiry
Unit Offering	14,000,000	7,000,000	$ 4,985,938	$ 1,214,031	$ 0.75	March 24, 2013
Unit Offering, Corporate Finance Units (i)	75,000	37,500	37,500	6,504	0.75	March 24, 2013
Replacement warrants (ii)	-	5,250,000	-	1,191,502	1.50	March 24, 2016
Replacement warrants (ii)	-	5,250,000	-	1,051,791	2.00	March 24, 2016
	14,075,000	17,537,500	$ 5,023,438	$ 3,463,828		

(Financial information presented in Canadian dollars unless otherwise noted)

(i) Equity units ("Corporate Finance Units") were issued to the Company's agent in the Qualifying Transaction.

(ii) These warrants were issued to a related party to replace warrants granted by 0890810 prior to the Qualifying Transaction.

In addition, the Company issued compensation to its agent in the Qualifying Transaction in the form of 735,000 equity units ("Agent Options") exercisable at $0.50 and with an expiry of March 24, 2013. Each option exercised provides the holder with one equity unit, comprised of one common share and half of a warrant to purchase a common share at an exercise price of $0.75. The Agent Options were valued at $167,722, which was recorded as contributed surplus.

The Qualifying Transaction was considered a reverse acquisition of a non-trading shell company within the meaning ascribed by International Financial Reporting Standard 2 – Share Based Payments. 0890810 was deemed the accounting acquirer and the continuing historical accounting information is from its operations.

The net liabilities of the Company at the date of acquisition and related public listing expense are summarized as follows:

Item		**Amount**
Cash	$	11,781
Receivables		3,999
Payables and accrued liabilities		(49,109)
Net liabilities acquired	$	(33,329)
Plus: Fair value of consideration transferred		(425,000)
Public listing expense	$	(458,329)

4. Significant accounting policies

(a) *Statement of compliance*

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") prevailing as of December 31, 2012, as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee.

(b) *Basis of preparation*

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value.

(c) *Basis of consolidation*

The Financial Statements include the accounts of the Company; 0890810 B.C. Ltd. ("0890810"), the Company's wholly-owned subsidiary; and Gold Coast Mining Inc. ("Gold Coast"), 0890810's wholly-owned subsidiary. Intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

(d) *Property and equipment*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment is related to the actual costs and expenses associated with placing the property in service. Any equipment with a life of two years or less is expensed upon acquisition. When parts of an item of property and equipment have different useful lives, they are accounted for as separate components. Automotive items are depreciated using the straight line method over five years. Equipment and software is depreciated using straight line method over three years. The gain or loss on disposal of any item of property or equipment is determined by comparing the proceeds from disposal with the carrying amount of the property and the resulting gain or loss is recognized on the consolidated statement of comprehensive loss.

(e) *Foreign currencies*

The presentation and functional currency of the Company is the Canadian dollar. The functional currency of 0890810 and Gold Coast is the United States dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. Gains and losses realized from transactions settled in foreign currencies are recognized in the statement of comprehensive loss.

At each financial position reporting date all assets and liabilities that are denominated in foreign currencies are translated at period end rates prevailing at the date of the statement of financial position. Account balances reported on the statement of comprehensive loss are translated at the average foreign exchange rate for that period. Differences arising from the translated balances are recorded in other comprehensive income.

(f) *Financial assets*

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

(i) *Fair value through profit or loss* - This category comprises cash and cash equivalents or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss.

(ii) *Loans and receivables* – This category includes accounts receivable, reported under prepaid and other current assets. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value, net of transaction costs, and subsequently carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

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

(g) *Financial liabilities*

The Company classifies all of its financial liabilities into the following category:

(i) *Other financial liabilities* - this category includes amounts due to related parties, note payable to related party, convertible note to related party and accounts payables, all of which are initially recognized at fair value, net of transaction costs, and subsequently carried at amortized cost.

(h) *Cash and cash equivalents*

Cash and cash equivalents include money market instruments which are readily convertible into cash or have maturities at the date of purchase of less than ninety days.

(i) *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: the initial recognition of assets or liabilities that affect neither accounting nor taxable loss and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the 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 utilized. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that the Company does not consider it probable that the deferred tax asset will be realized.

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.

(j) *Mineral properties*

The Company is in the exploration stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral claims as allowed under IFRS. Those costs that are not allowed to be capitalized under IFRS are expensed. Those costs capitalized include, but are not exclusive to, geological, geophysical studies, exploratory drilling and assaying. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment.

The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. Currently all of the Company’s mineral properties are classified as Exploration and Evaluation Assets.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Upon transfer of “Exploration and Evaluation Asset” into “Mine Development,” all subsequent expenditure on the construction, installation or completion of infrastructure facilities will be capitalized within “Mine Development”. After production starts, all assets included in “Mine Development” will be transferred to “Producing Mines”.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that an exploration expenditure is not expected to be recovered, it is charged to the results of operations. Exploration areas where reserves have been discovered, but require major capital expenditures before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

(k) *Impairment of long-lived assets*

Property and equipment and the investment in mineral properties are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash inflows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Indications of impairment may include, but are not limited to, significantly declining precious metals prices or increased risk of realization of a return on investment on precious metals properties.

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

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the depreciation charge for the period.

(l) *Share-based payment transactions*

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

Non-employee share based payments are measured based on the service provided to the reporting date and at their then current fair values. The cost of share based payments is presented as share based payments expense where applicable. Shares are issued from treasury upon the exercise of equity-settled share based instruments. Forfeitures are estimated for each reporting period and adjusted as required to reflect actual forfeitures that have occurred in the period.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each statement of financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Upon exercise of options the contributed surplus recognized in relation to those options is credited to share capital.

(m) *Loss per share*

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

(n) *Significant accounting judgments and estimates*

The preparation of these Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Financial Statements, and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant judgments about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- Impairment assessment of investment in mineral properties
  - Management determines at each reporting period whether there are any indicators of impairment. If there are indicators, the carrying value of the investment in mining property is compared to the carrying value to calculate the amount of impairment. If no indicators of impairment are identified, no impairment test is performed; and
- the recoverability of amounts receivable and prepayments which are included in the consolidated statement of financial position.

Significant estimates about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- Share-based payments

  - Share based payment values are calculated based on volatility, risk free interest rates, the fair value of the Company's shares on the grant date, exercise price, expected dividend yield, expected forfeiture rate and expected life of the instrument. Management uses its judgment in selecting the specific value of each input;
- Fair values of warrants
  - The initial recognition of warrants is based on applicable inputs similar to those of share-based payments. When warrants are classified as liabilities, the updated values of relevant inputs are used to calculate the fair value of the warrant liability at each reporting date. Warrants recorded in equity are carried at their historical grant-date value until exercised;
- Deferred taxes
  - Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized;
- Impairment assessment of investment in mineral properties
  - Management determines at each reporting period whether there are any indicators of impairment. If there are indicators, the carrying value of the investment in mining property is compared to the carrying value to calculate the amount of impairment. If no indicators of impairment are identified, no impairment test is performed; and
- Depreciation and impairment of property and equipment
  - Management estimates the useful life of property and equipment for depreciation. Indicators of impairment are subject to management's evaluation of the impact of various events.

(o) *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, 2013 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. These amendments require an entity to disclose information about rights to set-off and related arrangements.

- 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 11 - *Joint Arrangements* will supersede the existing standard IAS 31 - *Joint Ventures* effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.

- IFRS 12 - *Disclosure of Interests in Other Entities* is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

- 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 28 - Investments in Associates and Joint Ventures* is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. It describes the application of the equity method to investments in joint ventures in addition to associates.

- 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.

- IAS 1 - *Presentation of Financial Statements*. The primary effect of an amendment to IAS 1 requires separate presentation of changes in equity of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity. Owner changes in equity should be presented in the statement of changes in equity, separately from non-owner changes in equity. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will be applied in the Company's annual report for the year ended December 31, 2013.

Management is currently evaluating the impact of the changes relevant to IFRS 7, IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13 and IAS 28, IAS 32, and IAS 1; the remaining recent accounting pronouncements discussed above are not expected to have a material impact on the financial statements.

(Financial information presented in Canadian dollars unless otherwise noted)

5. Property and equipment

	Software	Equipment	Vehicles	Total
Cost				
Balance, January 1, 2010	$ -	$ -	$ -	$ -
Acquisitions	46,533	26,803	26,512	99,848
Balance, December 31, 2011	46,533	26,803	26,512	99,848
Disposals	-	(23,335)	-	(23,335)
Balance, December 31, 2012	$ 46,533	$ 3,468	$ 26,512	$ 76,513
Accumulated depreciation				
Balance, January 1, 2010	$ -	$ -	$ -	$ -
Depreciation expense	10,341	5,503	3,977	19,821
Balance, December 31, 2011	10,341	5,503	3,977	19,821
Depreciation expense	15,207	3,507	5,198	23,912
Disposals	-	(6,543)	-	(6,543)
Balance, December 31, 2012	$ 25,548	$ 2,467	$ 9,175	$ 37,190
Net book value, December 31, 2011	**$ 36,192**	**$ 21,300**	**$ 22,535**	**$ 80,027**
Net book value, December 31, 2012	**$ 20,985**	**$ 1,001**	**$ 17,337**	**$ 39,323**

There were no circumstances requiring impairments be recognized during the years ended December 31, 2012 or 2011.

6. Mineral properties

(a) *Additions to mineral properties*

The following additions were made during the annual periods ended December 31, 2012 and 2011:

	December 31, 2012	2011
Balance, beginning of period	$ 7,293,077	$ 1,129,534
Option and land payments (i)	497,450	642,016
Warrant-based payments	-	2,243,293
Exploration expenditures	179,946	3,278,234
Exchange rate variances	(122,815)	-
Balance, end of period	$ 7,847,658	$ 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 in 2011.

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

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.

(Financial information presented in Canadian dollars unless otherwise noted)

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	October 2012	50,000	-	50,000
5th extension and payment	December 2012	50,000	350,000	400,000
Total		$ 200,000	$ 1,000,000	$ 1,200,000

Following the December 2012 payment an additional US$1,000,000 is due on May 1, 2013, in order for Josephine Mining Corp. ("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) *Option to purchase agreement ("Wagner Option") from Wagner Timber Enterprises, LLC ("Wagner")*

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.

The Company renegotiated a US$30,000 extension payment which was due September 30, 2012; 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	Date paid	Extension fee, US$	Credit to purchase price	Total payment, US$
Initial payment	June 30, 2011	June 2011	$ -	$ 25,000	$ 25,000
1st extension	January 30, 2013 (i)		5,000	25,000	-
2nd extension	June 30, 2013		-	50,000	-
Purchase payment	June 30, 2015		-	825,000	-
Total			$ 5,000	$ 925,000	$ 25,000

(i) This agreement was amended subsequent to December 31, 2012 as described at Note 14.

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.

(Financial information presented in Canadian dollars unless otherwise noted)

(a) *Transactions with key management and directors*

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

		Year ended December 31,		
		2012		**2011**
Officer compensation and director fees	$	397,755	$	758,138
Reversal of accrued officer bonus (i)		(257,618)		-
Share-based payments		227,740		391,105
Total	$	367,877	$	1,149,243

(i) Employee 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 accrued 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 accrued interest until the note was settled, as described below. Proceeds of this note were used to settle a portion of the Company's current liabilities.

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 were payable on November 30, 2012. Interest accrued at prime plus two percent (2%) per annum. The note matured November 30, 2012. Proceeds of the note were used to settle certain accounts payable.

In October 2012, the Company issued a promissory note payable to the Company's President and Chairman 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 6(b). This loan, in addition to the two loans described directly above, of US$40,000 and US$12,100, and the related accrued interest, totaled US$104,202 when Big Rock Holdings, LLC ("Big Rock") assumed this debt in December, 2012. Big Rock is owned and managed by executives and majority shareholders common to the Company.

In December 2012, the Company executed a new note payable agreement with Big Rock. The loan was executed for a total loan amount of US$550,000 and interest payable at 9% per annum. The agreement requires a minimum of twelve months of interest payments. Big Rock assumed the total amount due to the Company's President and advanced US$400,000 directly to GMI (Note 6(b)), such that at December 31, 2012, the principal owed to Big Rock was US$504,202. Subsequent to December 31, 2012, Big Rock advanced to the Company US$44,000 in additional principal under the same agreement.

The following table summarizes the transactions described under this section (Note 7(b)):

		Creditor Amount, US$	
Item	**Date**	**Company President**	**Big Rock**
Note payable	May 2012	$ 40,000	$ -
2nd note payable	August 2012	12,100	-
3rd note payable	October 2012	50,000	-
Accrued interest	December 2012	2,102	-
Total		$ 104,202	$ -
Note payable, 1st advance	December 2012	$ -	$ 400,000
Note payable, assumption of debt	December 2012	(104,202)	104,202
Minimum interest commitment	December 2012	-	41,385
Discount for warrants issued as loan fee	December 2012	-	(99,800)
Amortization of minimum interest commitment			3,212
Amortization of warrant discount		-	8,317
Total, December 31, 2012, US$		**-**	**457,316**
Total, December 31, 2012		**$ -**	**$ 454,984**

As presented in the above table, the minimum interest commitment payable to Big Rock totals US$44,597. The Company also issued 2,220,000 warrants to Big Rock as a fee under the loan agreement. The warrants were valued at $99,800, which was recorded as a discount against the note, using the following Black Scholes inputs:

Input	**Value**	**Comments**
Grant price	$ 0.10	Per agreement terms
Market price	$ 0.08	Market share price at the date of grant
Expected life, years	1.5	Per agreement terms
Expected annual volatility	139%	Based on the Company's historical volatility
Risk free rate	1.07%	Based on Canadian bond yields
Expected annual dividend yield	0%	Management's expectation

(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 (“Finance Shares”), fair-valued on the grant-date at $12,500, as part of the consideration for the note, and may convert the note at US$0.125 per one common share. The note is convertible in United States dollars and the underlying shares are issuable denominated in Canadian dollars; this embedded derivative liability was not reported as a separate line item on the statement of financial position as at December 31, 2012, as the value was immaterial. Interest of $448 had accured at December 31, 2012, for total note and interest payable of $50,448.

(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 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 Russell Mining Corp. (“RMC”) in 24 equal installments. Pursuant to the Qualifying Transaction, the Company issued 10,500,010 common shares and 10,500,000 warrants (Note 3) to RMC under the finder’s agreement terms.

(Financial information presented in Canadian dollars unless otherwise noted)

(e) *Consulting Agreement*

The Company was party to a consulting agreement with RMC through September 2012 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); the payable was settled as described at Note 7(f).

(f) *Exchange agreement with Russell Mining Corporation ("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 total amount was $445,207. That amount plus $463 in interest income comprises the balance of other income for the year ended December 31, 2012. The convertible note payable and the financing shares described at Note 7(c) were issued as part of the consideration of the agreement. The forgiven payables and payables settled on the Company's behalf were recognized as other income in the statement of comprehensive loss for the year ended December 31, 2012. The Company gave RMMU intellectual mining exploration property as part of the transaction.

(g) *Summary of other related party transactions*

	Amounts payable as at December 31,		**Expenses incurred during the year ended December 31,**	
	2012	**2011**	**2012**	**2011**
SAGC (i)	$ 132,911	$ 16,707	$ 116,995	$ 167,007
RMC (ii)	20,578	35,988	(76,789)	15,146
Norton Rose (iii)	74,607	15,490	89,565	137,331
Totals	$ 228,096	$ 68,185	$ 129,771	$ 319,484

(i) The Company utilizes the services of corporate employees of St. Augustine Gold and Copper Limited ("SAGC") and its subsidiaries.

(ii) RMC settled liabilities due from the Company during 2012 as described at Note 7(f). Forgiveness of 2012 and 2011 debt caused a credit balance related to RMC for the year ended December 31, 2012.

(iii) 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.

The above transactions were conducted in the normal course of operations.

8. Share capital and reserves

(a) *Authorized share capital*

As at December 31, 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 and share capital*

During the year ended December 31, 2012, the Company's only share issuance was 100,000 shares to a related party as part of a short-term note payable agreement (Note 7(c)).

(Financial information presented in Canadian dollars unless otherwise noted)

	Note	Number	Share capital
Balance, January 1, 2011		10,500,010	$ 1,720,880
Additional capital contributed by shareholders		-	79,119
Unit offering	3	14,000,000	4,985,938
0890810 B.C. Ltd. shares eliminated	3	(10,500,010)	-
Shares issued to affect Qualifying Transaction	3	10,500,010	425,000
0854742 B.C. Ltd. shares acquired	3	850,000	-
Corporate finance units	3	75,000	37,500
Warrants exercised	8(f)	7,000	6,464
Options exercised	8(e)	19,000	9,500
Balance, December 31, 2011		25,451,010	$ 7,264,401
Finance Shares	7(c)	100,000	12,500
Balance, December 31, 2012		25,551,010	$ 7,276,901

(c) *Contributed surplus*

	Note	Number	Contributed surplus
Balance, January 1, 2011		-	$ -
Agent Options	3	735,000	167,722
Balance, December 31, 2011 and 2012		735,000	$ 167,722

There were no additions to contributed surplus during 2012.

(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 the 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 December 31, 2012, was 4,837,506 (December 31, 2011- 8,062,508).

(Financial information presented in Canadian dollars unless otherwise noted)

(e) *Option reserves*

	Exercise price range	Number	Weighted average exercise price
Balance, January 1, 2011	$0.30	110,000	$ 0.30
Granted	$0.50 - $1.00	3,135,000	$ 0.53
Forfeited	$0.30	(72,000)	$ 0.30
Exercised	$0.30	(19,000)	$ 0.30
Balance, December 31, 2011		3,154,000	$ 0.53
Forfeited	$0.50 - $1.00	(600,000)	$ 0.58
Balance, December 31, 2012		2,554,000	$ 0.58

Option reserves increased from $504,073 to $750,087 during 2012, an increase of $246,014. In addition to other share-based payments recorded in share capital ($12,500; Note 8(b)), share-based payment expenses totaled $258,514 (2011 - $504,073). The increase is attributable to option grants made prior to January 1, 2012. 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 following table summarizes options outstanding and exercisable as at December 31, 2012:

	Outstanding			Exercisable		
Exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining years	Number outstanding	Weighted average exercise price	Weighted average remaining years
$ 0.30	19,000	0.30	0.24	19,000	0.30	0.24
$ 0.50	2,135,000	0.50	2.20	1,435,000	0.50	1.69
$ 0.60	400,000	0.60	3.45	266,667	0.60	3.45
Totals	**2,554,000**	**$ 0.51**	**2.38**	**1,720,667**	**$ 0.51**	**1.95**

The following table summarizes options outstanding and exercisable as at December 31, 2011:

	Outstanding			Exercisable		
Exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining years	Number outstanding	Weighted average exercise price	Weighted average remaining years
$0.30 - $0.50	2,604,000	$ 0.50	2.36	754,000	$ 0.49	0.23
$0.51 - $0.60	400,000	0.60	3.45	133,334	0.60	3.45
$0.61 - $1.00	150,000	0.80	3.75	37,500	0.80	3.75
Totals	**3,154,000**	**$ 0.53**	**2.57**	**924,834**	**$ 0.49**	**0.84**

Total options exercisable include 735,000 Agent Options (Note 3).

(Financial information presented in Canadian dollars unless otherwise noted)

(f) *Warrant reserves*

	Note	Number	Warrant reserves	
Balance, January 1, 2011		-	$	46,825
Unit Offering	3	7,000,000		1,214,031
Unit offering, Corporate Finance Units	3	37,500		6,504
Replacement warrants	3	5,250,000		1,191,502
Replacement warrants	3	5,250,000		1,051,791
Warrants exercised (i)		(7,000)		(1,214)
Balance, December 31, 2011		17,530,500	$	3,509,439
Finance warrants	7(b)	2,220,000		99,800
Balance, December 31, 2012		19,750,500	$	3,609,239

(i) In April 2011, 7,000 warrants were exercised at a price of $0.75 per share.

A summary of outstanding warrants is as follows:

Exercise price (i)		Number		Number exercised	Expired, forfeited	Remaining	Remaining life, years (i)
$	0.10	2,220,000	(ii)	-	-	2,220,000	1.44
	0.75	7,037,500		7,000	-	7,030,500	0.23
	1.50	5,250,000		-	-	5,250,000	3.28
	2.00	5,250,000		-	-	5,250,000	3.28
$	1.21	19,757,500		7,000	-	19,750,500	1.98

(i) Totals are weighted averages.

(ii) See Note 7(b).

Of the issued warrants, 10,500,000 warrants are subject to the same escrow schedule as the shares discussed at Note 8(d). There were 4,725,000 warrants in escrow at December 31, 2012 (December 31, 2011 – 7,875,000).

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

(a) *Basic EPS*

Basic EPS is computed by dividing net loss for a year by the weighted average number of common shares outstanding during that year.

(b) *Diluted EPS*

Diluted EPS is computed by dividing net loss for a year by the diluted number of common shares. Diluted common shares includes the effects of instruments, such as share options and warrants, which could cause the number of common shares outstanding to increase.

The Company reported net losses for the years ended December 31, 2012 and 2011; the Company has accordingly presented basic and diluted EPS, which are the same, on a single line in the statements of comprehensive loss. Diluted loss per share did not include the effect of share purchase options and warrants as they were anti-dilutive.

(Financial information presented in Canadian dollars unless otherwise noted)

10. Income taxes

(a) *Federal corporate income taxes*

	December 31, 2012	2011
Current tax expense	-	-
Deferred tax expense	-	-
Income tax expense	-	-

Taxation in the Company's operational jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

A reconciliation between tax expense and the accounting loss multiplied by the Company's domestic tax rate for the years ended December 31, 2012 and 2011 is as follows:

	December 31, 2012	2011
Loss before tax	$ (872,743)	$ (3,011,117)
Income taxed at local statutory rates - 25% (2011 - 26.5%)	(218,454)	(797,946)
Foreign income taxed at other than Canadian statutory rates	(35,814)	(164,932)
Effect of reduction in statutory rate	-	46,033
Non-deductible expense	74,137	272,301
Share issuance costs	-	(200,008)
Impact of resource property transaction with an affiliated company	-	(95,117)
Change in unrecognized deferred tax assets	(166,119)	939,669
Change in estimates	346,250	-
Income tax recovery on loss	$ -	$ -

(b) *Deferred tax assets and liabilities*

The nature and tax effect of the temporary differences giving rise to the deferred tax assets at December 31, 2012 and 2011 are summarized as follows:

	December 31, 2012	2011
Non-capital losses	$ 1,981,669	$ 2,056,600
Undeducted financing costs	264,752	163,398
Resource properties	(1,260,132)	(1,157,552)
Re-organizational costs	-	177,939
Other	87,977	-
Deferred tax asset not recognized	(1,074,266)	(1,240,385)
Total	$ -	$ -

The Company had no deferred tax liabilities at either December 31, 2012 or 2011.

As of December 31, 2012, the Company had estimated non-capital losses in Canada and the United States of $1,885,233 and $3,943,124, respectively, for income tax purposes that may be carried forward to reduce taxable income derived in future years. No deferred tax asset was recognized for these amounts at December 31, 2012 and 2011. The non-capital losses may be carried forward in both jurisdictions for 20 years, and begin expiring in 2027.

11. Capital risk management

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

		December 31,	
		2012	**2011**
Cash and cash equivalents	$	4,596	728,272
Prepaid and other current assets		9,289	61,150
Accounts payable		427,559	712,534
Due to related parties		228,096	68,185
Note payable to related party		454,984	-
Convertible note payable to related party		50,448	-
Share capital		7,276,901	7,264,401
Option reserves		750,087	504,073
Contributed surplus		167,722	167,722
Warrant reserves		3,609,239	3,509,439

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.

12. Financial instruments

The fair values of the Company's cash and cash equivalents, prepaid and other current assets, accounts payable, due to related parties approximate their carrying values because of the short-term nature of these instruments.

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 (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash and cash equivalents are measured using level 1 inputs. The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, and commodity price risk.

(a) *Currency risk*

The Company's property interests in the United States make it subject to foreign currency fluctuations which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks. A 10% increase in the US dollar exchange rate relative to the Canadian dollar would have increased the Company's net loss by $26,706 during 2012 (2011 - $156,872).

As at December 31, 2012 and December 31, 2011, the following balances are denominated in US dollars:

(Financial information presented in Canadian dollars unless otherwise noted)

	December 31,	
	2012	**2011**
Cash and cash equivalents	2,962	400,255
Prepaid and other current assets	-	37,601
Property and equipment	39,323	78,481
Mineral properties	5,604,365	4,952,225
Deposits	1,492	77,326
Accounts payable	386,889	185,508
Due to related parties	-	52,009

(b) *Credit risk*

The Company's cash and cash equivalents are held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper in its short-term investments. The Company's receivable consists of goods and services tax due from the federal government of Canada.

(c) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. The following table identifies the periods in which liabilities as at December 31, 2012 are due:

Item	**Due within 1 year**
Accounts payable	$ 427,559
Due to related parties	228,096
Note payable to related party	454,984
Convertible note payable to related party	50,448
Total	$ 1,161,087

(d) *Commodity price risk*

The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of gold and other precious metals. The Company has not hedged any of its potential future gold sales. The Company's input costs are also affected by the price of fuel. The Company monitors gold and fuel prices to determine the appropriate course of action to be taken by the Company.

13. Comparative figures

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

14. Subsequent events

On February 6, 2013, the Company amended the Wagner Option and paid a $15,000 extension payment (Note 6(c)). The extension payment was recorded at the full extension price of $30,000, with a $15,000 liability due to Wagner for Wagner's option to re-attach mineral rights to the underlying property. The $15,000 liability is payable to Wagner in all circumstances except where the Company does not complete the Turner Option (Note 6(b)) and GMI does not require the Company to transfer the mineral rights to GMI. The following table summarizes the Company's current commitments under the amended agreement:

(Financial information presented in Canadian dollars unless otherwise noted)

Payment	Scheduled due date	Date paid	Extension fee, US$	Credit to purchase price	Total payment, US$
Initial payment	June 30, 2011	June 2011	$ -	$ 25,000	$ 25,000
1st extension	January 30, 2013	January 2013	5,000	25,000	30,000
2nd extension	September 30, 2013		-	50,000	-
Purchase payment	September 30, 2015		-	825,000	-
Total			$ 5,000	$ 925,000	$ 55,000