KENNA RESOURCES CORP.

(formerly Kenna Capital Corp.)

FINANCIAL STATEMENTS

DECEMBER 31, 2012

Ernst & Young

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Kenna Resources Corp. (formerly Kenna Capital Corp)

We have audited the accompanying financial statements of Kenna Resources Corp. (formerly Kenna Capital Corp.), which comprise the statements of financial position as at December 31, 2012, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Other matter
The financial statements of Kenna Resources Corp. (formerly Kenna Capital Corp.) for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on April 9, 2012.

Emphasis of Matter
Without qualifying our report, we draw attention to Note 1 in the financial statements which indicates that Kenna Resources Corp. incurred a net loss from operations of $279,468 for the year ended December 31, 2012, and as of that date had a deficit of $568,877. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Kenna Resources Corp.'s ability to continue as a going concern.

Ernst & Young LLP

SASKATOON, SASKATCHEWAN

April 25, 2013

Chartered Accountants

KENNA RESOURCES CORP.
(formerly Kenna Capital Corp.)

STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31

(See Note 1 - Nature of operations and going concern)
(Expressed in Canadian dollars)

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 368,657	$ 747,062
Accounts receivable and prepaid expenses	2,601	4,131
	371,258	751,193
Non-current assets		
Exploration and evaluation assets (Note 3)	241,734	-
	$ 612,992	**$ 751,193**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 14,621**	**$ 15,579**
SHAREHOLDERS' EQUITY		
Nature of Operations and going concern (Note 1)		
Share capital (Note 5)	1,054,453	898,954
Contributed surplus	112,795	126,069
Deficit	(568,877)	(289,409)
	598,371	**735,614**
	$ 612,992	**$ 751,193**

"Todd L. Lahti" Director   *"Corey J. Giasson"* Director

KENNA RESOURCES CORP.
(formerly Kenna Capital Corp.)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

(See Note 1 - Nature of operations and going concern)
(Expressed in Canadian dollars)

	2012	2011
Revenue		
Finance income	**$ 5,057**	**$ 6,631**
Expenses		
Exploration expense	61,546	-
Share based compensation (Note 5)	12,550	-
Accounting and audit	18,284	18,013
Legal	120,156	63,745
Consultants	7,000	10,724
Insurance	10,288	9,497
Transfer agent, listing and filing fees	26,464	13,483
Travel	10,916	2,312
Office and miscellaneous	17,321	217
	284,525	**117,991**
Net loss and total comprehensive loss	**$ (279,468)**	**$ (111,360)**
Basic and diluted net loss per common share	**$ (0.034)**	**$ (0.015)**
Weighted average number of common shares outstanding	**8,162,753**	**7,338,600**

KENNA RESOURCES CORP.
(formerly Kenna Capital Corp.)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(See Note 1 - Nature of operations and going concern)
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2010	7,338,600	$ 898,954	$ 126,069	$ (178,049)	$ 846,974
Net loss and total comprehensive loss	-	-	-	(111,360)	(111,360)
Balance, December 31, 2011	7,338,600	$ 898,954	$ 126,069	$ (289,409)	$ 735,614

	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2011	7,338,600	$ 898,954	$ 126,069	$ (289,409)	$ 735,614
Issuance of Class A shares	1,078,375	129,675	-	-	129,675
Agent's option	-	25,824	(25,824)	-	-
Share based compensation	-	-	12,550	-	12,550
Net loss and total comprehensive loss	-	-	-	(279,468)	(279,468)
Balance, December 31, 2012	8,416,975	$ 1,054,453	$ 112,795	$ (568,877)	$ 598,371

KENNA RESOURCES CORP.
(formerly Kenna Capital Corp.)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

(See Note 1 - Nature of operations and going concern)
(Expressed in Canadian dollars)

	2012	2011
Cash flows from operating activities:		
Net loss	$ (279,468)	$ (111,360)
Share based compenation	12,550	-
Net changes in non-cash working capital items related to operations:		
Accounts receivable and prepaid expenses	1,530	(496)
Accounts payable and accrued liabilities	(958)	(1,128)
Net cash flow from operating activities	**(266,346)**	**(112,984)**
Cash flows from investing activities:		
Exploration and evaluation assets	(112,734)	-
Net cash flow from investing activities	**(112,734)**	**-**
Cash flows from financing activities:		
Issuance of Class A shares	675	-
Net cash flow from financing activities	**675**	**-**
Net decrease in cash during the year	(378,405)	(112,984)
Cash and cash equivalents, beginning of the year	747,062	860,046
Cash and cash equivalents, end of the year	**$ 368,657**	**$ 747,062**

Non-cash investing and financing transactions:		
Class A shares issued to acquire exploration and evaluation assets (Note 3 and 5)	$ 129,000	$ -

1. Nature of operations and going concern

Kenna Capital Corp. was incorporated under the provisions of *The Business Corporations Act* (Saskatchewan) on September 25, 2009. On June 8, 2012, Kenna Capital Corp. changed its name to Kenna Resources Corp. (the "Company"). The Company's head office is located at 1005 – 201 1st Avenue S., Saskatoon, SK.

On March 28, 2012, the Company completed its Qualifying Transaction, as defined in TSX Venture Exchange Corporate Finance Manual Policy 2.4 - *Capital Pool Companies.* The transaction involved the acquisition of 100% of all rights, title and interests in the Elizabeth Lake copper, silver and gold property located in northern Saskatchewan. The Company is now listed as a Tier 2 mining company and is no longer considered a Capital Pool Company. The Company's shares trade on the TSX Venture Exchange under symbol "KNA". These financial statements were approved by the Company's Board of Directors on April 25, 2013.

Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the year ended December 31, 2012, the Company had a net loss from operations of $279,468 and as at December 31, 2012, had a deficit in the amount of $568,877. The Company's continuing operations, as intended, are dependent on its ability to continue to raise adequate financing in order to explore and develop resource properties. The outcome of these matters cannot be predicted at this time.

There can be no certainty as to the ability of the Company to recover its exploration and evaluation assets or to obtain sufficient financing to continue its operations. Accordingly, is material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not reflect any adjustments or other changes that may be required should the Company be unable to continue as a going concern. Such adjustments and changes could be material.

2. Significant accounting policies

The significant accounting policies used in the presentation of these annual financial statements are set out below. These policies have been consistently applied to all the periods presented.

Statement of compliance

These financial statements were prepared using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These accounting policies described below have been applied consistently to all periods presented in these financial statements.

Basis of presentation

These financial statements have been prepared on the historical cost basis.

Functional and presentation currency

These financial statements have been presented in Canadian dollars, which is the Company's functional currency.

2. Significant accounting policies (continued)

Cash and cash equivalents
Cash consists of funds held on deposit and non-interest bearing investments in cash equivalents with short-term maturities.

Exploration and evaluation assets
Pre-license costs
Pre-license costs are costs incurred before the legal rights to explore a specific area have been obtained. These costs are expensed in the period in which they are incurred as exploration and evaluation expense.

Exploration and evaluation (“E&E”) costs
Once the legal right to explore has been acquired, costs directly associated with the exploration project are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Such E&E costs may include undeveloped land acquisition, geological, geophysical and seismic, exploratory drilling and completion, testing and directly attributable internal costs. E&E costs are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral resource is considered to be determined. The technical feasibility and commercial viability of a mineral resource is considered to be established when proved and/or probable reserves are determined to exist. When this is no longer the case, impairment costs are charged to exploration and evaluation expense. Upon determination of proved and/or probable reserves, E&E assets attributed to those reserves are first tested for impairment and then reclassified to development and production assets within property, plant and equipment, net of any impairment. Expired land costs, if any, are also expensed to exploration expense as they occur.

Impairment of non-current assets
The carrying amounts of the Company's non-current assets are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the Cash Generating Unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, generally on the basis of geological interest.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. 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. An impairment loss is recognized in earnings for the period to the extent that the carrying amount of the asset (or CGU) exceeds the recoverable amount.

2. Significant accounting policies (continued)

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset (or CGU) does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset (or CGU). A reversal of an impairment loss is recognized immediately in earnings.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Provisions

Provisions are recorded when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required and a reliable estimate can be made of the amount of the obligation. Provisions are measured based on the discounted expected cash flows.

Decommissioning liabilities, if any, are recognized for the future legal or constructive obligation to abandon and reclaim the Company's resource properties. The amount of the decommissioning liabilities represents the net present value of the estimated future expenditures required to abandon and reclaim the Company's net ownership in properties and facilities determined in accordance with local conditions, current technology and current requirements. The liabilities are calculated using currently estimated abandonment and reclamation costs inflated to the estimated decommissioning date and then discounted using a risk free discount rate. A liability is recorded in the period in which an obligation arises with a corresponding decommissioning cost added to the carrying amount of the related asset. The liability is progressively accreted over time as the effect of discounting unwinds, creating an accretion expense which is recognized as part of finance expense. The related decommissioning cost capitalized in property, plant and equipment is depreciated in a manner consistent with the depletion and depreciation of the underlying asset.

Changes in the estimated liability resulting from revisions to estimated timing of decommissioning, expected amount of cash flows or changes in the discount rate are recognized as a change in the decommissioning liability and the related decommissioning cost. Actual decommissioning expenditures incurred are charged against the accumulated liability to the extent recorded. As at December 31, 2012 and 2011, the Company had no amounts recognized as a decommissioning liability.

Deferred income taxes

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. Significant accounting policies (continued)

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. Deferred income taxes are not recognized for temporary differences which arise for initial recognition of an asset or liability that affects neither the accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and liabilities are presented as non-current. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally-enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Finance income
Finance income is recorded on an accrual basis.

Share issue costs
Share issue costs are charged against share capital in the period of issuance. Costs incurred for shares that have not been issued at period end are deferred until such time as the related shares are issued. If it becomes apparent that no further shares will be issued that relate to these costs, the full amount will be charged to share capital immediately.

Loss per share
Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Share based payments
Options and warrants granted are accounted for using the fair value method. Under this method, the fair value of stock options and warrants granted are measured at estimated fair value at the grant date and recognized over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options granted is transferred to share capital.

2. Significant accounting policies (continued)

The Company uses the Black-Scholes option-pricing method to determine the fair value of these incentives taking into consideration terms and conditions upon which the options were granted. At each 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.

Significant accounting, judgements, estimates
The preparation of financial statements, in accordance with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are:

- the determination of useful lives, units of production and residual values of property, plant and equipment, if any;
- the fair value of stock-based compensation determined using the Black-Scholes option pricing model using estimates for expected forfeitures, useful life and stock volatility;
- the provision for deferred income taxes based on estimated tax bases using substantively enacted tax rates expected to apply to taxable income during the years in which the differences are expected to be recovered or settled;
- amounts recorded for decommissioning liabilities including estimates around timing and amount of expenditures required to settle liabilities and the risk free discount rate used, if any.

Standards issued but not yet effective:
Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 10 Financial Statements
In May 2011, the IASB released IFRS 10, Financial Statements, which replaces SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 will be effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is considering the impact of the adoption of this standard on its financial statements.

2. Significant accounting policies (continued)

IFRS 11 Joint Arrangements
In May 2011, the IASB released IFRS 11, Joint Arrangements, which supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. The standard addresses inconsistencies in the reporting of joint arrangements by requiring the equity method to account for interests in jointly-controlled entities. IFRS 11 will be effective for the annual periods beginning on January 1, 2013, with earlier application permitted. The Company is considering the impact of the adoption of this standard on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities
In May 2011, the IASB released IFRS 12, Disclosure of Interests in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is considering the impact of the adoption of this standard on its financial statements.

IFRS 13 Fair Value Measurement
In May 2011, the IASB released IFRS 13, Fair Value Measurement. IFRS 13 is expected to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will be effective for the annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is considering the impact of the adoption of this standard on its financial statements.

IAS 1 Presentation of Financial Statements – Components of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified [or “recycled”] to profit or loss at a future point in time [for example, upon derecognition or settlement] would be presented separately from items that will never be reclassified. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The amendment will affect presentation only and therefore will have no impact on the Company’s financial position or performance.

3. Exploration and evaluation assets

The components of exploration and evaluation assets are as follows:

Acquisition of mineral rights	$	181,418
Geophysical surveys		60,316
	$	241,734

On March 28, 2012, the Company completed its Qualifying Transaction, involving the acquisition of 100% of all rights, title and interests in the Elizabeth Lake copper, silver and gold project located in northern Saskatchewan (such property and interests are collectively referred to as the "Property").

As consideration for the acquisition of the Property, the Company issued an aggregate of 1,000,000 common shares to BEC International Corp. (the "Vendor") at an ascribed price of $0.12 per share (Note 5) and paid $50,000 in cash consideration to the Vendor. In addition, the Company granted to the Vendor a two percent (2%) royalty on production from the Property, to a maximum amount payable of $5,000,000. A finder's fee was paid to an arm's length party through the issuance of 75,000 common shares of the Company at a deemed price of $0.12 per share.

Based on expenditures incurred to date, the Company’s mineral claims are in good standing to 2015.

4. Deferred income taxes

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes follows:

	2012	**2011**
Net loss and total comprehensive loss	**$ (279,468)**	**$ (111,360)**
Expected income tax expense (recovery)	**$ (75,456)**	**$ (30,067)**
(at a combined federal and provincial rate of 27% (2011: 27%)		
Share based compensation	3,389	-
Tax losses not recognized	72,067	30,067
Income tax expense (recovery)	$ -	$ -

4. Deferred income taxes (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred income tax assets and liabilities are as follows:

	2012	2011
Deferred income tax asset		
Non-capital loss carryforwards	$ 148,625	$ 68,144
Share issuance costs	17,111	25,666
Deferred income tax asset not recognized	165,736	93,810

As of December 31, 2012, the Company has non-capital loss carryforwards of $550,000 (2011 - $252,000) that begin to expire in 2030.

5. Share capital

The authorized share capital of the Company consists of an unlimited number of Class A shares with no par value ("Common Shares" or "Shares").

In 2009, the Company issued 3,845,100 Shares at a price of $0.10 per Share for total cash proceeds of $384,510, all of which were deposited in escrow (the "Escrow Shares") pursuant to an escrow agreement dated March 24, 2010.

Pursuant to the escrow agreement, 10% of the Escrow Shares were released from escrow upon issuance of a Final Exchange Bulletin by the TSX-V related to the completion of the Company's Qualifying Transaction. The remainder of the Escrow Shares will be released from escrow in six equal tranches of 15% every six months thereafter for a period of 36 months. These Escrow Shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

On April 7, 2010, the Company completed its initial public offering (the "Offering") of 3,493,500 Shares at a price of $0.20 per Share for aggregate gross proceeds of $698,700. The Offering was made pursuant to a prospectus dated March 24, 2010, filed with the British Columbia Securities Commission, the Alberta Securities Commission, the Saskatchewan Financial Services Commission, The Manitoba Securities Commission and the Ontario Securities Commission.

On March 28, 2012, the Company issued 1,075,000 Shares at an ascribed price of $0.12 per Share to acquire the Elizabeth Lake copper, silver and gold project (Note 3).

5. Share capital (continued)

Stock option plan

The Company has adopted an incentive stock option plan (the "Option Plan"), which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with TSX-V requirements grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase Shares.

Options granted vested immediately and expire the earliest of five years after issuance, the 90th day after a holder ceases to be a director or officer of the Company, or one year after the death of the holder.

A summary of the of the Company's stock option plan and changes during the year is presented below.

	December 31, 2012		December 31, 2011	
	Options	Price	Options	Price
Outstanding, beginning of year	733,860	$ 0.20	733,860	$ 0.20
Options granted	183,465	0.20	-	-
Options expired	(122,310)	0.20	-	-
Outstanding, end of year	795,015	$ 0.20	733,860	$ 0.20
Weighted average remaining life	2.84 years		3.27 years	

The fair value of stock options issued in 2012 calculated using the Black-Scholes option pricing model was $12,550 and was recorded as share based compensation, with a corresponding increase in contributed surplus. The fair value was determined using the following assumptions: risk free rate of 1.37%, volatility of 85%, dividend yield of nil and expected life of five years.

Agent's option

In conjunction with the Offering, the Company issued to its agent a non-transferable option to purchase 279,480 Shares at a price of $0.20 per Share, exercisable until April 15, 2012.

The fair value of agent's options issued in 2010 calculated using the Black-Scholes option pricing model was $25,824 and was recorded as share issue costs, reducing share capital, with a corresponding increase in contributed surplus. The fair value was determined using the following assumptions: risk free rate of 1.78%, volatility of 85%, dividend yield of nil and expected term of two years.

On April 12, 2012, the agent exercised a portion of the option resulting in the issuance of 3,375 Shares. Thereafter, the remaining option expired.

6. Related party transactions

The Board of Directors and management do not receive compensation other than stock options (Note 5).

7. Capital management

The Company's objective is to maintain a strong capital base so as to have sufficient resources to acquire, explore and develop resource properties. The Company is not subject to externally imposed capital requirements.

8. Financial instruments

Fair value of financial instruments

The carrying amount of current financial assets and current financial liabilities approximate their fair value because of the short-term maturities of these items.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations; the Company's maximum exposure to credit loss is the book value of its financial instruments. The Company is not exposed to any significant credit risk as at December 31, 2012. The Company's cash is deposited with a major Canadian chartered bank and is held in highly-liquid investments. The Company's receivables consist of commodity taxes receivables, and are therefore not subject to significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. All of the Company's financial liabilities are due within one year. The Company manages liquidity risk through the management of its capital structure. As at December 31, 2012, the Company had a total of $368,657 in cash and cash equivalents.

Market risk analysis

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company does not hold any financial instruments with market risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company does not have any interest-bearing debt. The Company's cash and cash equivalent investments are not subject to interest rate risk.