Rae-Wallace Mining Company
(An exploration stage company)

Unaudited Interim Condensed Consolidated Financial Statements

For the three and six month periods ended June 30, 2012 and 2011

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim condensed financial statements of Rae-Wallace Mining Company, are the responsibility of the management and Board of Directors of the Company.

The unaudited interim condensed financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

“George Cole”, CEO	*“Steve Friberg”*, VP, Exploration
George Cole	Steve Friberg

NOTICE TO READER

The accompanying unaudited interim condensed financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim financial statements for the three and six months ended June 30, 2012 and 2011 have not been reviewed by the Company's auditors.

RAE-WALLACE MINING COMPANY
(An Exploration Stage Company)
UNAUDITED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(expressed in U.S. Dollars)

	June 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash	$ 19,753	$ 316,831
Trade and other receivables (Note 13)	11,126	13,195
Prepaid expenses	18,151	5,920
TOTAL CURRENT ASSETS	49,030	335,946
PROPERTY AND EQUIPMENT:		
Equipment, net (Note 4)	29,470	32,617
TOTAL PROPERTY AND EQUIPMENT	29,470	32,617
TOTAL ASSETS	$ 78,500	$ 368,563
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable (Note 14)	$ 484,653	$ 260,090
TOTAL CURRENT LIABILITIES	484,653	260,090
SHAREHOLDERS' EQUITY:		
Capital stock (Note 5)	3,052,450	3,052,450
Reserve for warrants (Note 9)	878,000	822,000
Reserve for share based payments (Note 8)	318,000	309,000
Reserve for foreign currency translation	(61,066)	(58,754)
Accumulated deficit	(4,593,537)	(4,016,223)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(406,153)	108,473
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 78,500	$ 368,563

Nature of Operations and Going Concern (Note 1)
Commitments (Note 15)
Segmented Information (Note 16)
Subsequent Events (Note 17)

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

RAE-WALLACE MINING COMPANY

(An Exploration Stage Company)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(expressed in U.S. Dollars)

	Three months ended, June 30, 2012	Three months ended, June 30, 2011	Six months ended, June 30, 2012	Six months ended, June 30, 2011
OPERATING EXPENSES:				
Salaries & benefits (Note 10)	$ 75,253	$ 35,105	$ 150,470	$ 105,289
Consulting fees (Note 10)	60,478	88,680	100,530	190,396
Exploration and evaluation expenditures	67,264	107,820	128,163	123,176
Financing penalty (Note 5)	-	72,325	-	72,325
Share-based payments (Note 6)	5,000	38,720	9,000	38,720
Promotion and travel	5,664	9,802	18,136	21,407
Professional fees	32,659	93,713	81,078	108,330
Other general and administrative expenses	44,928	60,475	85,609	136,955
TOTAL OPERATING EXPENSES	291,246	506,640	572,986	796,598
LOSS FROM OPERATIONS	(291,246)	(506,640)	(572,986)	(796,598)
OTHER INCOME (LOSS):				
Gain on sale of vehicle	-	-	-	2,947
Foreign exchange (loss) gain	(5,273)	6,382	(4,328)	9,653
TOTAL OTHER INCOME	(5,273)	6,382	(4,328)	12,600
NET LOSS	$ (296,519)	$ (500,258)	$ (577,314)	$ (783,998)
OTHER COMPREHENSIVE LOSS:				
Net Loss	(296,519)	(500,258)	(577,314)	(783,998)
Exchange differences on translating foreign operations	(989)	(2,167)	(2,312)	(5,438)
Total Other Comprehensive Loss	(297,508)	(502,425)	(579,626)	(789,436)
NET LOSS PER SHARE - BASIC AND DILUTED	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC AND DILUTED	23,237,800	21,079,268	23,237,800	20,338,002

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

RAE-WALLACE MINING COMPANY

(An Exploration Stage Company)

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(expressed in U.S. Dollars)

	Common Stock Shares	Common Stock Amount	Reserve for Warrants	Reserve for Share based payments	Reserve for Foreign Currency Translation	Accumulated Deficit	Total Stockholders' Equity
Balance, January 1, 2011	19,588,500	$ 2,566,023	$ 451,000	$ 247,280	$ (2,729)	$ (2,544,691)	$ 716,883
Common stock on units issued for cash at $0.25 per unit	3,360,000	840,000	-	-	-	-	840,000
Warrants on units issued for cash at $0.25 per unit, net of offering costs	-	(371,000)	371,000	-	-	-	-
Share issue costs - cash	-	(52,446)	-	-			(52,446)
Penalty on failure to complete liquidity event	289,300	72,325	-	-			72,325
Vested portion of stock options granted	-	-	-	38,720	-	-	38,720
Foreign currency translation	-	-	-	-	(5,438)	-	(5,438)
Net loss	-	-	-	-	-	(783,998)	(783,998)
Balance, June 30, 2011	23,237,800	$ 3,054,902	$ 822,000	$ 286,000	$ (8,167)	$ (3,328,689)	$ 826,046
Share issue costs - cash	-	(2,452)	-	-			(2,452)
Vested portion of stock options granted	-	-	-	23,000			23,000
Foreign currency translation	-	-	-	-	(50,587)	-	(50,587)
Net loss	-	-	-	-	-	(687,534)	(687,534)
Balance, December 31, 2011	23,237,800	$ 3,052,450	$ 822,000	$ 309,000	$ (58,754)	$ (4,016,223)	$ 108,473
Vested portion of stock options granted	-	-	-	9,000			9,000
Extension of warrants	-	-	56,000	-	-	-	56,000
Foreign currency translation	-	-	-	-	(2,312)	-	(2,312)
Net loss	-	-	-	-	-	(577,314)	(577,314)
Balance, June 30, 2012	23,237,800	$ 3,052,450	$ 878,000	$ 318,000	$ (61,066)	$ (4,593,537)	$ (406,153)

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

RAE-WALLACE MINING COMPANY
(An Exploration Stage Company)
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in U.S. Dollars)

	Six months ended, June 30, 2012	Six months ended, June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (577,314)	$ (783,998)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	3,010	2,722
Gain on sale of vehicle	-	(2,947)
Foreign exchange	(2,175)	(5,110)
Extension of warrants	56,000	-
Financing penalty (Note 5)		72,325
Share based compensation (Note 6)	9,000	38,720
Changes in assets and liabilities:		
Prepaid expenses	(12,231)	(48,775)
Taxes and other receivables	2,069	322,682
Accounts payable and accrued liabilities	224,563	83,041
Net cash used by operating activities	(297,078)	(321,340)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	-	(1,443)
Proceeds from sale of equipment	-	13,500
Net cash provided from (used by)investing activities	-	12,057
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of stock, net	-	787,554
Net cash provided from financing activities	-	787,554
Net increase (decrease) in cash and cash equivalents	(297,078)	478,271
CASH AT BEGINNING OF PERIOD	316,831	420,241
CASH AT END OF PERIOD	$ 19,753	$ 898,512

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

General

Rae-Wallace Mining Company (hereinafter "Rae-Wallace" or "the Company") was incorporated under the laws of the State of Idaho in 1916. After several decades of dormancy, the Company reorganized in 1997 as an exploration stage company focused on evaluating, acquiring and exploring mineral prospects with potential for economic deposits of gold and silver. In 2011, the Company was re-domiciled to the Cayman Islands.

In 1998, the investor group controlling Rae-Wallace sold their entire interest to Silver Trend Mining Company for 1,500,000 shares of Silver Trend common stock. In 1999, Silver Trend sold the Company to a private investment group, which subsequently conveyed proportional interests to individual investors. In January 2007, the Company underwent a change of control with a new management group joining the Company. The Company's fiscal year-end was changed to December 31, from June 30 during fiscal 2011.

On February 8, 2010, the Company incorporated Rae Wallace Peru S.A.C., a wholly owned Peruvian subsidiary. Rae-Wallace Peru was incorporated to hold the Company's Peruvian exploration properties.

1. NATURE OF OPERATIONS AND GOING CONCERN

Rae-Wallace is in the process of exploring its mineral properties and has not yet determined whether all the properties contain economically recoverable reserves. The business of exploring for minerals involves a high degree of risk. The underlying value of the mineral properties is dependant upon the existence and economic recovery of mineral reserves, the ability to raise long-term financing to complete the development of the properties, government policies and regulations, and upon future profitable production or, alternatively, upon Rae-Wallace's ability to dispose of its interest on an advantageous basis; all of which are uncertain.

The Company is in the process of exploring and evaluating its mineral properties. On the basis of information to date, it has not yet determined whether these properties contain economically recoverable mineral deposits. The underlying value of the mineral properties is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest, the ability of the Company to obtain the necessary financing to complete development, and future profitable production.

At June 30, 2012 the Company had a working capital deficiency of $435,623 (December 31, 2011 - $75,856 working capital) had not yet achieved profitable operations, had accumulated losses of $4,593,537 (December 31, 2011 - $4,016,223) and expects to incur further losses in the development of its business, all of which raises substantial doubt upon the Company's ability to continue as a going concern. Rae-Wallace will require additional financing in order to conduct its planned work programs on mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due.

These financial statements have been prepared on a going-concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption were not used then the adjustments required to report Rae-Wallace's assets and liabilities on a liquidation basis could be material to these financial statements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These interim condensed consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

2.2 Basis of presentation

These interim condensed consolidated financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's December 31, 2011 audited annual financial statements.

2.3 Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2011. For the purpose of preparing and presenting the Financial Information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- IFRS 7 '*Financial Instruments, Disclosures*' - effective for annual periods beginning on or after January 1, 2013, IFRS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting similar arrangements.
- IFRS 9 *'Financial Instruments: Classification and Measurement'* – effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- IFRS 10 '*Consolidated Financial Statements'* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- IFRS 11 '*Joint Arrangements'* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12 '*Disclosure of Interests in Other Entities'* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, 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 13 '*Fair Value Measurement'* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

2. BASIS OF PREPARATION, (continued)

2.3 Adoption of new and revised standards and interpretations, (continued)

- IAS 1 '*Presentation of Financial Statements'* - the IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.
- IAS 12 '*Income Taxes*' – In December 2010, effective for annual periods beginning on or after January 1, 2012, IAS 12 Income Taxes was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, *Income Taxes – recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- IAS 19 '*Employee Benefits*' - effective for annual periods beginning on or after January 1, 2013, a number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.
- IAS 27 '*Separate Financial Statements*' - effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
- IAS 28 '*Investments in Associates and Joint Ventures'* - effective for annual periods beginning on or after January 1, 2013, as a consequence of the issue of IFRS 10, IFRS 11and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.
- IAS 32 '*Financial instruments, Presentation'* – In December 2011, effective for annual periods beginning on or after January 1, 2013, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date.

Management anticipates that the above standards will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013, and has not yet considered the impact of the adoption of these standards.

3. MINERAL PROPERTIES

Peru Property:

On March 25, 2010 the Company entered into a letter of intent agreement with Geologix Explorations Inc. to acquire the right to earn a 100% interest in eight of the Company's Peruvian properties. The option agreement covered the Liscay, Largatija, Lachoc, Mirko, San Felipe, Sura, Toro Blanco and Cayhua properties (the "Properties") which are currently owned 100% by the Company. Portions of the Liscay, Largatija, Lachoc, and Mirko properties are subject to a 2% precious metals NSR and a 1% base metals NSR payable to Newmont Peru S.A. Pursuant to the terms of the option agreement, in order to earn a 100% interest in the Properties, the Company was required to:

1) Pay Geologix US$30,000 on signing of the Letter of Intent ("LOI") (payment delivered March 8, 2010);

2) Pay Geologix US$67,500 on or before May 31, 2010. Geologix further agreed to use this payment to renew the Properties' concessions for 2010 (paid June 8, 2010);

3) Deliver to Geologix, shares of the Company valued at US$250,000, distributed, as follows:

   (i) 500,000 common shares of the Company to be delivered on or before May 31, 2010, with each share to be accompanied by a half warrant, with each full warrant entitling Geologix the right to purchase one additional common share of the Company for a period of two years from the date the shares are issued; (delivered)

   (ii) An additional payment of the Company shares and warrants as described in (i) above, was to be delivered within 10 days after the Company completed a private placement or public financing, but no later than September 30, 2010, such that the total value of shares delivered totals US$250,000 (500,000 shares were delivered)

Upon completion of the above exchanges and payments, the Company would own the Properties, and Geologix would execute whatever documents were required to transfer title to the Properties to the Company. The Company has met all obligations under the option agreement and owned 100% interest in the property.

If the Company or any of its affiliates should sell, lease, transfer, convey or otherwise dispose of any of the properties or enter into an option or agreement to do any of the same, or if it should grant a royalty on the properties, or any portion thereof, to a third party before March 8, 2011, the Company would pay Geologix 20% of the proceeds when received from such transaction.

The Company is not obligated to any work commitment on the properties.

On July 22, 2010, the Company entered into an option agreement with Fronteer Gold under which Fronteer Gold can earn a 51% interest in any two of the Peru projects held by the Company by making a one time payment of $150,000 (received) and incurring expenditures on the properties of three times the previous expenditures on the projects.

4. PROPERTY, PLANT & EQUIPMENT

	Furniture and fixtures	Equipment	Vehicles	Total
Cost				
As at January 1, 2011	**$ 207**	**$ 19,834**	**$ 39,538**	**$ 59,579**
Additions	1,003	4,671	824	6,498
Disposals	-	-	(25,844)	(25,844)
As at December 31, 2011	**$ 1,210**	**$ 24,505**	**$ 14,518**	**$ 40,233**
Foreign exchange	**(4)**	**(71)**	**(42)**	**(117)**
As at June 30, 2012	**$ 1,206**	**$ 24,434**	**$ 14,476**	**$ 40,116**
Accumulated depreciation				
As at January 1, 2011	**$ 52**	**$ 711**	**$ 15,988**	**$ 16,751**
Depreciation expense	31	2,951	3,175	6,157
Disposals	-	-	(15,292)	(15,292)
As at December 31, 2011	**$ 83**	**$ 3,662**	**$ 3,871**	**$ 7,616**
Depreciation expense	**57**	**1,527**	**1,426**	**3,010**
Foreign exchange	**-**	**9**	**11**	**20**
As at June 30, 2012	**$ 140**	**$ 5,198**	**$ 5,308**	**$ 10,646**
Net book value				
As at December 31, 2011	$ 1,127	$ 20,916	$ 10,647	$ 32,617
As at June 30, 2012	**$ 1,066**	**$ 19,236**	**$ 9,168**	**$ 29,470**

5. CAPITAL STOCK

Share Capital
Rae-Wallace is authorized to issue an unlimited number of common shares. The issued and outstanding common shares consist of the following:

	Number	Amount ($)
Balance at January 1, 2011	**19,588,500**	**2,566,023**
Private Placement – May 20 & June 3, 2011 at $0.25	3,360,000	840,000
Warrants issued		(371,000)
Issued for non-cash consideration:		
Penalty on failure of liquidity event	289,300	72,325
Cost of share issuance		
Cash commissions, legal costs and foreign exchange		(54,898)
Balance at December 31, 2011 and June 30, 2012	**23,237,800**	**3,052,450**

Private Placements
On June 7 and 30, 2011, the Company issued 289,300 shares with a value of $72,325 pursuant to the liquidity certificates issued as part of private placements completed by the Company on December 7 and 30, 2010, as the Company failed to complete a liquidity event prior to the six month anniversary of the placement.

On May 20 and June 3, 2011, the Company completed a private placement of 3,360,000 units at a price of $0.25 per unit for gross proceeds of $840,000. Each unit consists of one common share and one common share purchase warrant. Each warrant is exerciseable into one share of the Company at a price of $0.35 expiring 3 years after a going public transaction. The fair value of the warrants was estimated on their grant date using the Black-Scholes Option Price Model. The following assumptions were made in estimating fair value: risk-free interest rate of 0.74%; volatility of 100.0%; expected life of 3.5 years; dividend yield of zero. The warrants were valued at $0.11 per share, or $371,000. The Company paid cash commissions and legal fees in the amount of $52,446 in relation to the placement.

6. SHARE BASED PAYMENTS

Rae-Wallace established a stock option to provide additional incentive to its officers, directors, employees and consultants in their effort on behalf of the Company in the conduct of its affairs. The Plan authorizes the granting of up to 10,000,000 stock options to employees, directors and consultants. Options vest immediately and expire on the fifth anniversary from the date of issue unless otherwise specified.

A summary of stock options issued and outstanding is as follows:

	June 30, 2012			December 31, 2011		
		Weighted Average Exercise Price	**Number of Options**		Weighted Average Exercise Price	Number of Options
Outstanding at beginning of year	**$**	**0.22**	**2,460,000**	$	0.22	2,460,000
Transaction during the year:						
Granted		**-**	**-**		-	-
Exercised		**-**	**-**		-	-
Outstanding at end of year		**0.22**	**2,460,000**		0.22	2,460,000
Exercisable at end of year	**$**	**0.22**	**2,190,000**	$	0.22	2,190,000

6. SHARE BASED PAYMENTS, (continued)

The following table provides additional information about outstanding stock options at June 30, 2012:

	No. of Options Outstanding	Weighted Average Remaining Life (Years)		Weighted Average Exercise Price	No. of Options Currently Exercisable		Weighted Average Exercise Price – Exercisable Options
$ 0.20	**1,650,000**	**3.12**	**$**	**0.20**	**1,650,000**	**$**	**0.20**
$ 0.25	**810,000**	**3.32**	**$**	**0.25**	**540,000**	**$**	**0.25**
$ 0.20 - $0.25	**2,460,000**	**3.19**	**$**	**0.22**	**2,190,000**	**$**	**0.22**

Share based payments

In October 2010, 810,000 options were issued to directors, officers and consultants of the Company. The options have an exercise price of $0.25, and vested 1/3 immediately and 1/3 at each of October 2011 and 2012. These options expire after five years. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Model.

The following assumptions were made in estimating fair value: risk-free interest rate of 1.2%; volatility of 100.0%; expected life of 5 years; dividend yield of zero. The options were valued at $0.14 per share, or $116,000. Stock based compensation expense based on the vested portion amounted to $38,280 in the six month year ended December 31, 2010 and $61,720 during the year ended December 31, 2011, with the remaining $16,000 to be expensed through to fiscal 2012. For the six months ended June 30, 2012, $9,000 was recognized in share based payments for vesting of options.

7. WARRANTS

Month of Expiry	No. of Warrants	Exercise Price
		($)
September 30, 2012	500,000	0.375
June 7, 2013	1,698,000	0.50
June 30, 2013 – broker warrants	13,000	0.25
June 30, 2013	1,208,000	0.50
September 30, 2014	1,000,000	0.375
November 20, 2014	2,970,000	0.35
December 2, 2014	390,000	0.35
	7,779,000	

7. WARRANTS, (continued)

The following table summarizes the assumptions used with the Black-Scholes valuation model during the year ended December 31, 2011:

Grant date	**May 20, 2011**	**June 3, 2011**	**Totals**
No. of warrants	2,970,000	390,000	3,360,000
Exercise price	$ 0.35	$ 0.35	
Expected life in years	3.5	3.5	
Volatility	100%	100%	
Risk-free interest rate	0.74%	0.74%	
Dividend yield	-	-	
Fair value of warrants	$ 328,000	$ 43,000	$ 371,000

8. RESERVE FOR SHARE BASED PAYMENTS

	June 30, 2012	December 31, 2011
Balance at beginning of period/year	**$ 309,000**	$ 247,280
Share based payments	**9,000**	61,720
Balance at end of period/year	**$ 318,000**	$ 309,000

9. RESERVE FOR WARRANTS

	June 30, 2012	December 31, 2011
Balance at beginning of period/year	**$ 822,000**	$ 451,000
Extension of warrants	**56,000**	-
Warrants issued	**-**	371,000
Balance at end of period/year	**$ 878,000**	$ 822,000

During the six month period ended June 30, 2012, 1,000,000 warrants previously expiring on September 30, 2012 issued to Pilot Gold were extended to expire eighteen months from the completion of a going public transaction in return for Pilot Gold dropping its option agreement to acquire up to 51% of the Liscay property. The increase in fair value of the warrants of $56,000 was booked to acquisition costs for the Liscay property.

10. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

During the six month period ended June 30, 2012, $30,000 (2011 - $30,000) was paid for services to the Chief Financial Officer.

These expenses have been measured at their exchange amount, being the amounts negotiated and agreed to by the parties to the transactions. As at June 30, 2012, $50,314 (December 31, 2011 - $16,950) of amounts due to related parties is included in accounts payable and accrued liabilities.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION, (continued)

Remuneration of Directors and key management personnel, other than consulting fees, of the Company was as follows:

Six months ended June 30,		**2012**		2011
	Salaries and benefits	**Share based payments**	Salaries and benefits	Share based payments
George Cole, CEO	**42,000**	**-**	42,000	-
Steve Friberg, VP Exploration	**42,000**	**-**	42,000	-
Total	**84,000**	**-**	84,000	-

11. MANAGEMENT OF CAPITAL

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its shareholders' equity. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the six month period ended June 30, 2012. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity, which is comprised of capital stock, reserves, and accumulated deficit, which as at June 30, 2012 totaled $(406,153) (December 31, 2011 - $108,473).

The Company's objective when managing capital is to obtain adequate levels of funding to support its exploration activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the identification and development of precious metals deposits.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

12. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company designed its cash, which are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of the Company's cash, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these investments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject in and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

Credit Risk

The Company is not exposed to major credit risk attributable to customers. Additionally, the majority of the Company's cash is held with a high rated Canadian financial institution in Canada and the United States of America.

Interest Rate Risk

The Company invest cash surplus to its operational needs in investment-grade short term deposits certificates issued by the bank where it keeps its Canadian and U.S. Bank accounts. The Company periodically assesses the quality of its investments with this bank and is satisfied with the credit rating of the bank and the investment grade of its short term deposits certificates. A change in the interest rate of 1% would cause interest income to change by less than $1,000 (2011 - $4,000).

Foreign Currency Risk

The Company's exploration and evaluation activities are substantially denominated in US dollars and Peruvian Soles. The Company's funds are predominantly kept in Canadian dollars, with a major Canadian financial institution. As at June 30, 2012, the Company believes that it is not exposed to major foreign currency risks.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2012, the Company had current assets of $49,030 (December 31, 2011 - $335,946) and current liabilities of $484,653 (December 31, 2011 - $260,090). All of the Company's financial liabilities and receivables have contractual maturities of less than 90 days and are subject to normal trade terms. Current working capital deficiency of the Company is $435,623 (December 31, 2011 - $75,856 working capital).

Commodity Price Risk

The Company's financial results and exploration and development activities have been, or may in the future be, adversely affected by declines in the price of gold, and/or other metals. Gold prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of commodities by various central banks, financial institutions, expectations of inflation or deflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, international supply and demand, speculative activities and increased production due to new mine developments, improved mining and production methods and international economic and political trends. The Company's revenues, if any, are expected to be in large part derived from mining and sale of gold or interests related thereto. The effect of these factors on the price of gold and therefore the economic viability of the Company's exploration projects, cannot accurately be predicted.

13. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables arise from two main sources: trade receivables due from customers for services and sales and harmonized services tax ("HST") receivable due from government taxation authorities. These are broken down as follows:

	As at,	
	June 30, 2012	December 31, 2011
	$	$
HST Receivable	**11,126**	13,195
Total Trade and Other Receivables	**$ 11,126**	$ 13,195

Below is an aged analysis of the Company's trade and other receivables:

	As at,	
	June 30, 2012	December 31, 2011
	$	$
Over 3 months	**11,126**	13,195
Total Trade and Other Receivables	**$ 11,126**	$ 13,195

At June 30, 2012, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 12.

The Company holds no collateral for any receivable amounts outstanding as at June 30, 2012.

14. TRADE AND OTHER PAYABLES

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities, amounts payable for financing activities and payroll liabilities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade and other payables:

	As at,	
	June 30, 2012	December 31, 2011
	$	$
Less than 1 month	**39,465**	28,161
1-3 months	**27,584**	22,081
Over 3 months	**417,604**	209,848
Total Trade and Other Payables	**$ 484,653**	$ 260,090

15. COMMITMENTS

The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitations, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject under such regulations to clean up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement. This may include increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees.

The Company has not determined and is not aware whether any provision for such costs is required and is unable to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

16. SEGMENTED INFORMATION

Operating Segments

At June 30, 2012 the Company's operations comprise a single reporting operating segment engaged in mineral exploration in Peru. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8 *'Operating Segments'*. As the operations comprise a single reporting segment, amounts disclosed in the unaudited interim financial statements also represent operating segment amounts.

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;

- whose operating results are reviewed regularly by the entity's chief operating decision maker; and

- for which discrete financial information is available.

Geographic Segments

Rae Wallace is in the business of mineral exploration and production in the country of Peru. As such, management has organized the Company's reportable segments by geographic area. The Peruvian segment is responsible for mineral exploration and production activities in that country while the Canadian segment manages corporate head office activities. Information concerning Rae Wallace's reportable segments is as follows:

16. SEGMENTED INFORMATION, (continued)

For the period ended,	**June 30, 2012**	December 31, 2011
	$	$
Net loss		
North America	**333,604**	707,260
Peru	**243,710**	764,272
	577,314	1,471,532

As at,	**June 30, 2012**	December 31, 2011
Total assets		
North America	**31,895**	322,922
Peru	**46,605**	45,641
	78,500	368,563

17. SUBSEQUENT EVENTS

On July 18, 2012, the Company entered into an agreement with Pilot Gold Inc. whereby Pilot Gold agreed to terminate its option to acquire a 51% in any two of the Company's Peruvian properties upon the closing of a transaction that results in the listing of the Company's common shares on a recognized stock exchange, in consideration for: (a) the issuance to Pilot Gold of 1,985,100 common shares of the Company; (b) the issuance to Pilot Gold of additional Common shares of the Company to maintain Pilot Gold' 15.8% shareholdings of the Company; (c) the extension of the expiry date of the 1,000,000 ordinary share purchase warrants of the Company currently held by Pilot Gold to the date that is the later of: (i) July 23, 2014; and (ii) 24 months following the closing of the Company's initial public offering (or other transaction resulting in the listing of the Company's common shares on a recognized stock exchange); (d) the issuance to Pilot Gold of additional ordinary share purchase warrants, which if such warrants were exercised, would constitute 9.99% of the common shares of the Company after giving effect to the IPO; (e) the grant by Rae-Wallace to Pilot Gold of a 2% net smelter returns royalty; and (f) the grant by Rae-Wallace to Pilot Gold of a right of first offer in the event that the Company wishes to explore/develop any of the optioned projects with a third party.