Rae-Wallace Mining Company

Consolidated Financial Statements

For the years ended
December 31, 2012 and 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited consolidated financial statements of Rae-Wallace Mining Company (the "Company") are the responsibility of the management and Board of Directors of the Company.

The audited consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Company maintains systems of internal controls that are designed by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

The Board of Directors is responsible for reviewing and approving the audited consolidated 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 audited consolidated 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 audited consolidated 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
George Cole

"Steve Friberg", VP, Exploration
Steve Friberg

MARTINELLIMICK PLLC
A FRUCI & ASSOCIATES SUBSIDIARY

Independent Auditor's Report

To the Shareholders of Rae-Wallace Mining Company:

We have audited the accompanying consolidated financial statements of Rae-Wallace Mining Company (an exploration stage company), which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

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

Auditor Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform and audit to obtain reasonable assurance the consolidated financial statements are free of material misstatement. Canadian generally accepted auditing standards require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon 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 consolidated financial statements present fairly, in all material respects, the financial position of Rae-Wallace Mining Company as at December 31, 2012 and 2011, and their financial performance and their cash flows for the periods then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter
In forming our opinion on the consolidated financial statements, which is not qualified, we have considered the adequacy of the disclosure made in Note 1 to the consolidated financial statements concerning the Company's ability to continue as a going concern. The Company has had no revenues, an accumulated deficit of $5,042,451 as at December 31, 2012. This condition, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

MartinelliMick PLLC

MartinelliMick PLLC
Spokane, Washington
April 19, 2013

RAE-WALLACE MINING COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(expressed in U.S. Dollars)

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash	$ 19,216	$ 316,831
Trade and other receivables (Note 14)	10,774	13,195
Prepaid expenses	12,034	5,920
TOTAL CURRENT ASSETS	42,024	335,946
PROPERTY AND EQUIPMENT:		
Equipment, net (Note 5)	27,444	32,617
TOTAL PROPERTY AND EQUIPMENT	27,444	32,617
TOTAL ASSETS	$ 69,468	$ 368,563
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable (Note 15)	$ 573,756	$ 260,090
Notes payable - related parties (Note 17)	129,933	-
TOTAL CURRENT LIABILITIES	703,689	260,090
SHAREHOLDERS' EQUITY:		
Capital stock (Note 6)	3,250,960	3,052,450
Reserve for warrants (Note 10)	888,000	822,000
Reserve for share based payments (Note 9)	325,000	309,000
Reserve for foreign currency translation	(55,730)	(58,754)
Accumulated deficit	(5,042,451)	(4,016,223)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(634,221)	108,473
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 69,468	$ 368,563

Nature of Operations and Going Concern (Note 1)
Commitments (Note 16)
Segmented Information (Note 18)
Subsequent Events (Note 20)

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

RAE-WALLACE MINING COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(expressed in U.S. Dollars)

	Years ended, December 31, 2012	Years ended, December 31, 2011
OPERATING EXPENSES:		
Salaries & benefits (Note 10)	$ 196,887	$ 279,303
Consulting fees (Note 10)	153,214	335,452
Exploration and evaluation expenditures	349,049	150,817
Share-based payments (Note 6)	16,000	61,720
Promotion and travel	23,183	48,416
Professional fees	120,710	294,244
Other general and administrative expenses	153,230	248,632
TOTAL OPERATING EXPENSES	1,012,273	1,418,584
LOSS FROM OPERATIONS	(1,012,273)	(1,418,584)
OTHER INCOME (LOSS):		
Gain on sale of vehicle	-	2,947
Financing penalty (Note 5)	-	(72,325)
Foreign exchange (loss) gain	(13,955)	16,430
TOTAL OTHER INCOME	(13,955)	(52,948)
NET LOSS	$ (1,026,228)	$ (1,471,532)
OTHER COMPREHENSIVE LOSS:		
Net Loss	(1,026,228)	(1,471,532)
Exchange differences on translating foreign operations	3,024	(56,025)
Total Other Comprehensive Loss	(1,023,204)	(1,527,557)
NET LOSS PER SHARE - BASIC AND DILUTED	$ (0.04)	$ (0.07)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC AND DILUTED	24,143,570	21,811,941

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

RAE-WALLACE MINING COMPANY

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	-	(54,898)	-	-			(54,898)
Penalty on failure to complete liquidity event	289,300	72,325	-	-			72,325
Vested portion of stock options granted	-	-	-	61,720	-	-	61,720
Foreign currency translation	-	-	-	-	(56,025)	-	(56,025)
Net loss	-	-	-	-	-	(1,471,532)	(1,471,532)
Balance, December 31, 2011	23,237,800	$ 3,052,450	$ 822,000	$ 309,000	$ (58,754)	$ (4,016,223)	$ 108,473
Shares issued for property	1,985,100	198,510	-	-			198,510
Vested portion of stock options granted	-	-	-	16,000			16,000
Extension of warrants	-	-	66,000	-	-	-	66,000
Foreign currency translation	-	-	-	-	3,024	-	3,024
Net loss	-	-	-	-	-	(1,026,228)	(1,026,228)
Balance, December 31, 2012	25,222,900	$ 3,250,960	$ 888,000	$ 325,000	$ (55,730)	$ (5,042,451)	$ (634,221)

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

RAE-WALLACE MINING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in U.S. Dollars)

	Years ended, December 31, 2012	Years ended, December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,026,228)	$ (1,471,532)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	6,070	5,656
Gain on sale of vehicle	-	(2,947)
Foreign exchange	2,127	(56,025)
Shares issued for property	198,510	-
Extension of warrants	66,000	-
Financing penalty (Note 5)	-	72,325
Share based compensation (Note 7)	16,000	61,720
Changes in assets and liabilities:		
Prepaid expenses	(6,114)	(2,482)
Taxes and other receivables	2,421	308,432
Accounts payable and accrued liabilities	313,666	188,839
Net cash used by operating activities	(427,548)	(896,014)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	-	(5,998)
Proceeds from sale of equipment	-	13,500
Net cash provided from investing activities	-	7,502
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of stock, net	-	785,102
Proceeds from issuance of promissory notes (Note 17)	129,933	-
Net cash provided from financing activities	129,933	785,102
Net increase (decrease) in cash and cash equivalents	(297,615)	(103,410)
CASH AT BEGINNING OF YEAR	316,831	420,241
CASH AT END OF YEAR	$ 19,216	$ 316,831

The accompanying notes are an integral part of these 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 in the United States 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 December 31, 2012 the Company had a working capital deficiency of $661,665 (December 31, 2011 - $75,856 working capital) had not yet achieved profitable operations, had accumulated losses of $5,042,451 (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

The Company's Consolidated Financial Statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2012.

These audited consolidated financial statements were authorized by the Board of Directors of the Company on April 29, 2012.

2.2 Basis of presentation

The audited consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

2.3 Adoption of new and revised standards and interpretations

At the date of authorization of these Financial Statements, the International Accounting Standards Board ("IASB") and the International Financial Reporting Issues Committee ("IFRIC") has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted these standards, amendments and interpretations. However the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

- 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.
- 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.

2. BASIS OF PREPARATION (continued)

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

- 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 other comprehensive income. 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, 2014, 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.
- IFRIC 20 '*Stripping Costs in the Production Phase of a Mine':* In October 2011, the IASB issued IFRIC 20 which clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods. The interpretation is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its 100% owned subsidiary, Rae Wallace Peru S.A.C. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-Company transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of their interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Mineral properties

All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment ("PPE"). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

3.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write-off the cost of PPE, less their estimated residual value, using the declining balance method or unit-of-production method over the useful life.

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

3.4 Decommissioning, restoration and similar liabilities ("Asset retirement obligation" or "ARO")

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Share based payments

Share based payment transactions
Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share based payment.

Equity-settled transactions
The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect, if any, of outstanding options is reflected as additional dilution in the computation of earnings per share.

3.6 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Taxation (continued)

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position 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 each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Taxation (continued)

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.7 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. During the year ended December 31, 2012, all the outstanding stock options and warrants were antidilutive.

3.8 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company does not have any assets classified as available-for-sale.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables and promissory notes payable are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At December 31, 2012 the Company has not classified any financial liabilities as FVTPL.

3.10 Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

3.12 Cash

Cash in the statement of financial position comprises cash at banks and on hand.

3.13 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.14 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Significant accounting judgments and estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations; property, plant and equipment, recoverability of trade and other receivables, valuation of deferred income tax amounts, impairment testing and the calculation of share based payments. The most significant judgments relate to recognition of deferred tax assets and liabilities, determination of the commencement of commercial production and the determination of the economic viability of a project.

3.16 Foreign currency transactions

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is the Canadian dollar ("CDN"), and the functional currency of the subsidiaries in the Group is the Peruvian Nuevo Sol ("PER"). The consolidated financial statements are presented in U.S. Dollars which is the Group's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

4. 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. MINERAL PROPERTIES, (continued)

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.

5. 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	**44**	**705**	**536**	**1,285**
As at December 31, 2012	**$ 1,254**	**$ 25,210**	**$ 15,054**	**$ 41,518**
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	**125**	**3,063**	**2,882**	**6,070**
Foreign exchange	**-**	**116**	**272**	**388**
As at December 31, 2012	**$ 208**	**$ 6,841**	**$ 7,025**	**$ 14,074**
Net book value				
As at December 31, 2011	$ 1,127	$ 20,916	$ 10,647	$ 32,617
As at December 31, 2012	**$ 1,046**	**$ 18,369**	**$ 8,029**	**$ 27,444**

6. 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	**23,237,800**	**3,052,450**
Issued for non-cash consideration:		
Shares issued for termination of property agreement (note 4)	1,985,100	198,510
Balance at December 31, 2012	**25,222,900**	**3,250,960**

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.

On July 18, 2012, the Company issued 1,985,100 common shares to Pilot Gold pursuant to 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 (note 4). The shares were valued at $198,510 based on market value as per the Company's most recent private placement.

7. 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:

	December 31, 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**	**2,460,000**	$ 0.22	2,190,000

The following table provides additional information about outstanding stock options at December 31, 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**	**2.62**	**$ 0.20**	**1,650,000**	**$ 0.20**
$ 0.25	**810,000**	**2.81**	**$ 0.25**	**810,000**	**$ 0.25**
$ 0.20 - $0.25	**2,460,000**	**2.68**	**$ 0.22**	**2,460,000**	**$ 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 expensed during the year ended December 31, 2012.

8. WARRANTS

Month of Expiry	No. of Warrants	Exercise Price
		($)
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
	7,279,000	

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

9. RESERVE FOR SHARE BASED PAYMENTS

	December 31, 2012	December 31, 2011
Balance at beginning of year	**$ 309,000**	$ 247,280
Share based payments	**16,000**	61,720
Balance at end of year	**$ 325,000**	$ 309,000

10. RESERVE FOR WARRANTS

	December 31, 2012	December 31, 2011
Balance at beginning of year	**$ 822,000**	$ 451,000
Extension of warrants	**66,000**	-
Warrants issued	**-**	371,000
Balance at end of year	**$ 888,000**	$ 822,000

During the year ended December 31, 2012, 1,000,000 warrants previously expiring on September 30, 2012 issued to Pilot Gold were extended to expire the earlier of July 23, 2014 or 24 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 (note 4). The increase in fair value of the warrants of $66,000 was booked to acquisition costs for the Liscay property.

11. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

During the year ended December 31, 2012, $60,000 (2011 - $60,000) was charged for services by 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 December 31, 2012, $108,414 (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.

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

Year ended December 31,	**2012**		2011	
	Salaries and benefits	**Share based payments**	Salaries and benefits	Share based payments
George Cole, CEO	**$ 42,000**	**$ -**	$ 84,000	$ -
Steve Friberg, VP Exploration	**42,000**	**-**	84,000	-
Total	**$ 84,000**	**$ -**	$ 168,000	$ -

During the year ended December 31, 2012 the Company received various installment loans totaling CDN$101,086 through the issuance of a promissory note to Irwin Professional Corporation, a corporation controlled by the corporate secretary of the Company. The promissory note carries an interest rate of prime plus 6% calculated based on the Bank of Canada prime rate and is repayable on demand.

During the year ended December 31, 2012 the Company received a loan totaling USD$25,000 through the issuance of a promissory note to George Cole, the Company's CEO. The promissory note carries an interest rate 10% and is repayable on demand.

12. 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 year ended December 31, 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 December 31, 2012 totaled $(634,221) (December 31, 2011 - $108,473).

12. MANAGEMENT OF CAPITAL, (continued)

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.

13. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments
The Company designed its cash as FVTPL, which is 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 invests 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 $200 (2011 - $3,000).

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 December 31, 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 December 31, 2012, the Company had current assets of $42,024 (December 31, 2011 - $335,946) and current liabilities of $703,689 (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 $661,665 (December 31, 2011 - $75,856 working capital).

13. FINANCIAL INSTRUMENTS, (continued)

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.

14. 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,	
	December 31, 2012	December 31, 2011
	$	$
HST Receivable	**10,774**	13,195
Total Trade and Other Receivables	**$ 10,774**	$ 13,195

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

	As at,	
	December 31, 2012	December 31, 2011
	$	$
Over 3 months	**10,774**	13,195
Total Trade and Other Receivables	**$ 10,774**	$ 13,195

At December 31, 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 13.

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2012.

15. 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,	
	December 31, 2012	December 31, 2011
	$	$
Less than 1 month	**15,769**	28,161
1-3 months	**9,041**	22,081
Over 3 months	**548,946**	209,848
Total Trade and Other Payables	**$ 573,756**	$ 260,090

16. 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.

17. PROMISSORY NOTES PAYABLE

During the year ended December 31, 2012 the Company received various installment loans totaling CDN$101,086 through the issuance of a promissory note to Irwin Professional Corporation, a corporation controlled by the corporate secretary of the Company. The promissory note carries an interest rate of prime plus 6% calculated based on the Bank of Canada prime rate and is repayable on demand.

During the year ended December 31, 2012 the Company received a loan totaling USD$25,000 through the issuance of a promissory note to George Cole, the Company's CEO. The promissory note carries an interest rate 10% and is repayable on demand.

As at December 31, 2012, total principal and interest owing on the above notes was $129,933 (December 31, 2011 - $nil).

18. SEGMENTED INFORMATION

Operating Segments

At December 31, 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 consolidated 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:

For the year ended,	**December 31, 2012**	December 31, 2011
	$	$
Net loss		
North America	**668,888**	707,260
Peru	**357,340**	764,272
	1,026,228	1,471,532

As at,	**December 31, 2012**	December 31, 2011
Total assets		
North America	**22,347**	322,922
Peru	**47,121**	45,641
	69,468	368,563

19. INCOME TAXES

The following table reconciles the income tax provision from the expected amount based on statutory rates to the amount reported:

		2012		2011
Components of the income tax provision:				
Income taxes at statutory tax rates	$	**(270,000)**	$	(416,000)
Difference between Canadian and foreign tax rates		**(13,000)**		(13,000)
Changes in current and future tax rates		**7,000**		19,000
Changes in foreign exchange rates on foreign tax assets		**52,000**		21,000
Non deductible expenses and other		**(23,000)**		6,000
Change in valuation allowance		**247,000**		383,000
Income tax expense	$	**-**	$	-

The Canadian statutory income tax rate of 26.25% (2011 – 28.25%) is comprised of the federal income tax rate at approximately 15.0% (2011 – 18.0%) and the provincial income tax rate of approximately 11.25% (2011 – 10.25%).

The primary differences which give rise to deferred income tax assets at December 31, 2012 and 2011 are as follows:

	2012	2011
	$	$
Deferred income tax assets		
Deductible share issuance costs	**13,600**	18,600
Non-capital losses carried forward	**1,314,000**	1,062,000
	1,327,600	1,080,600
Less : valuation allowance	**(1,327,600)**	(1,080,600)
Net deferred income tax assets	**-**	-

As at December 31, 2012 the Company has available for carry forward non-capital losses of $5,749,194 (December 31, 2011 - $3,415,207) expiring through to 2032.

20. SUBSEQUENT EVENT

Effective April 3, 2013, Rae-Wallace Mining Company completed the sale of its wholly owned subsidiary, Rae Wallace Peru S.A.C. (the “Rae Peru”). The subsidiary was sold to an arm’s length private company for the purchase price of USD$700,000. The proceeds from the sale of Rae Peru will be used by the Company to pay certain creditors and to settle outstanding debts of the Company, with the balance retained for future opportunities.