Rae-Wallace Mining Company
(An exploration stage company)

Unaudited Interim Condensed Consolidated Financial Statements

For the three month periods ended
March 31, 2013 and 2012

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
George Cole

"Steve Friberg", VP, Exploration
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 months ended March 31, 2013 and 2012 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)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,370	$ 8,049
Trade and other receivables (Note 13)	11,810	10,774
Prepaid expenses	1,184	3,524
Assets of discontinued operations (Note 4)	44,496	47,121
TOTAL CURRENT ASSETS	60,860	69,468
TOTAL ASSETS	$ 60,860	$ 69,468
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable (Note 14)	$ 597,129	$ 566,254
Notes payable - related parties (Note 16)	134,146	129,933
Liabilities of discontinued operations (Note 4)	22,933	7,502
TOTAL CURRENT LIABILITIES	754,208	703,689
SHAREHOLDERS' EQUITY:		
Capital stock (Note 5)	3,250,960	3,250,960
Reserve for warrants (Note 9)	888,000	888,000
Reserve for share based payments (Note 8)	325,000	325,000
Reserve for foreign currency translation	(50,127)	(55,730)
Accumulated deficit	(5,107,181)	(5,042,451)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(693,348)	(634,221)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 60,860	$ 69,468

Nature of Operations and Going Concern (Note 1)
Commitments (Note 15)
Segmented Information (Note 17)
Subsequent event (Note 18)

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 month periods ended, March 31, 2013	March 31, 2012
OPERATING EXPENSES:		
Salaries & benefits (Note 10)	$ -	$ 43,100
Consulting fees (Note 10)	4,989	15,009
Exploration and evaluation expenditures	-	56,000
Share-based payments (Note 6)	-	4,000
Promotion and travel	-	8,870
Professional fees	36,582	48,419
Other general and administrative expenses	5,103	22,448
	(46,674)	(197,846)
Foreign exchange (loss) gain	5,603	3,704
Loss from continuing operations	(41,071)	(194,142)
Loss from discontinued operations	(23,659)	(86,653)
NET LOSS	$ (64,730)	$ (280,795)
OTHER COMPREHENSIVE LOSS:		
Net Loss	(64,730)	(280,795)
Exchange differences on translating foreign operations	5,603	(1,323)
Total Other Comprehensive Loss	(59,127)	(282,118)
NET LOSS PER SHARE - BASIC AND DILUTED		
Loss per share - from continuing operations	$ (0.00)	$ (0.01)
Loss per share - from discontinued operations	$ (0.00)	$ (0.00)
Loss per share - net loss	$ (0.00)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC AND DILUTED	25,222,900	23,237,800

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		Reserve for Warrants	Reserve for Share based payments	Reserve for Foreign Currency Translation	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
Balance, January 1, 2012	23,237,800	$ 3,052,450	$ 822,000	$ 309,000	$ (58,754)	$ (4,016,223)	$ 108,473
Vested portion of stock options granted	-	-	-	4,000			4,000
Extension of warrants	-	-	56,000	-	-	-	56,000
Foreign currency translation	-	-	-	-	(1,323)	-	(1,323)
Net loss	-	-	-	-	-	(280,795)	(280,795)
Balance, March 31, 2012	23,237,800	$ 3,052,450	$ 878,000	$ 313,000	$ (60,077)	$ (4,297,018)	$ (113,645)
Shares issued for property	1,985,100	198,510	-	-			198,510
Vested portion of stock options granted	-	-	-	12,000			12,000
Extension of warrants	-	-	10,000	-	-	-	10,000
Foreign currency translation	-	-	-	-	4,347	-	4,347
Net loss	-	-	-	-	-	(745,433)	(745,433)
Balance, December 31, 2012	25,222,900	$ 3,250,960	$ 888,000	$ 325,000	$ (55,730)	$ (5,042,451)	$ (634,221)
Foreign currency translation	-	-	-	-	5,603	-	5,603
Net loss	-	-	-	-	-	(64,730)	(64,730)
Balance, March 31, 2013	25,222,900	$ 3,250,960	$ 888,000	$ 325,000	$ (50,127)	$ (5,107,181)	$ (693,348)

he 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)

	Three month periods ended, March 31, 2013	Three month periods ended, March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (64,730)	$ (280,795)
Adjustments to reconcile net loss to net cash used by operating activities:		
Foreign exchange	5,603	(1,323)
Extension of warrants	-	56,000
Share based compensation (Note 6)	-	4,000
Changes in assets and liabilities:		
Prepaid expenses	2,340	1,193
Taxes and other receivables	(1,036)	9,526
Accounts payable and accrued liabilities	30,875	114,325
Net cash used by operating activities	(26,948)	(97,074)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of promissory notes (Note 16)	4,213	-
Net cash provided from financing activities	4,213	-
Cash flow provided from (used in) discontinued operations	18,056	(33,141)
Net decrease in cash and cash equivalents	(4,679)	(130,215)
CASH AT BEGINNING OF PERIOD	8,049	308,315
CASH AT END OF PERIOD	$ 3,370	$ 178,100

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 March 31, 2013 the Company had a working capital deficiency of $693,348 (December 31, 2012 - $634,221 working capital deficiency) had not yet achieved profitable operations, had accumulated losses of $5,107,181 (December 31, 2012 - $5,042,451) 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").

These audited consolidated financial statements were authorized by the Board of Directors of the Company on May 27, 2013.

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, 2012 audited annual financial statements.

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 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.
- 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.

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.

3. 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.

Subsequent to year end, 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”) which holds the Company’s properties. The subsidiary was sold to an arm’s length private company for the purchase price of USD$700,000. See details in Note 4.

4. DISCONTINUED OPERATIONS

Subsequent to year end, 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”) which holds the Company’s properties. The subsidiary was sold to an arm’s length private company for the purchase price of USD$700,000.

Operating results related to Rae Peru have been included in Discontinued Operations on the Consolidated Statements of Financial Position, the Consolidated Statements of Loss and Comprehensive Loss and the Consolidated Statements of Cash Flows for the three month periods ended March 31, 2013 and 2012. Amounts related to the discontinued operations have been reclassified in the comparative period to conform to the current year presentation

As a result of the completion of the transaction subsequent to year end, the Company reclassified the net loss from its Rae Peru operations of $23,659 for the three months ended March 31, 2013 as loss for the period from discontinued operations (March 31, 2012 - $86,653).

4. DISCONTINUED OPERATIONS, (continued)

The breakdown of the loss for the three months ended March 31, 2013 and 2012 from discontinued operations is as follows:

Three months ended March 31,	**2013**	2012
Salaries and benefits	**-**	(32,117)
Consulting	**(7,853)**	(25,043)
Exploration and evaluation	**(2,103)**	(4,899)
Promotion and travel	**-**	(3,602)
Depreciation	**(1,552)**	(1,482)
Other general and administrative expenses	**(5,280)**	(16,751)
Foreign exchange	**(6,871)**	(2,759)
Loss from discontinued operations	**(23,659)**	(86,653)

The net cash flows provided from discontinued operations during the three months ended March 31, 2013 was $18,056 (March 31, 2012 - $33,141 cash used).

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, 2012	**23,237,800**	**3,052,450**
Issued for non-cash consideration:		
Shares issued for termination of property agreement (note 3)	1,985,100	198,510
Balance at December 31, 2012 and March 31, 2013	**25,222,900**	**3,250,960**

Private Placements

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 3).

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:

	March 31, 2013			December 31, 2012		
		Weighted Average Exercise Price	**Number of Options**		Weighted Average Exercise Price	Number of Options
Outstanding at beginning of period/year	**$**	**0.22**	**2,460,000**	$	0.22	2,460,000
Transaction during the period/year:						
Granted		**-**	**-**		-	-
Exercised		**-**	**-**		-	-
Outstanding at end of period/year		**0.22**	**2,460,000**		0.22	2,460,000
Exercisable at end of period/year	**$**	**0.22**	**2,460,000**	$	0.22	2,460,000

The following table provides additional information about outstanding stock options at March 31, 2013:

	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**	**2.37**	**$**	**0.20**	**1,650,000**	**$**	**0.20**
$ 0.25	**810,000**	**2.57**	**$**	**0.25**	**810,000**	**$**	**0.25**
$ 0.20 - $0.25	**2,460,000**	**2.44**	**$**	**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.

7. 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	

8. RESERVE FOR SHARE BASED PAYMENTS

	March 31, 2013	December 31, 2012
Balance at beginning of period/year	**$ 325,000**	$ 309,000
Share based payments	**-**	16,000
Balance at end of period/year	**$ 325,000**	$ 325,000

9. RESERVE FOR WARRANTS

	March 31, 2013	December 31, 2012
Balance at beginning of period/year	**$ 888,000**	**$ 822,000**
Extension of warrants	**-**	**66,000**
Balance at end of period/year	**$ 888,000**	**$ 888,000**

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 3). The increase in fair value of the warrants of $66,000 was booked to acquisition costs for the Liscay property.

10. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

During the three month period ended March 31, 2013, $5,000 (2012 - $15,000) 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 March 31, 2013, $112,668 (December 31, 2012 - $108,414) 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:

Three months ended March 31,		**2013**		2012
	Salaries and benefits	**Share based payments**	Salaries and benefits	Share based payments
George Cole, CEO	**-**	**-**	21,000	-
Steve Friberg, VP Exploration	**-**	**-**	21,000	-
Total	**-**	**-**	42,000	-

As of March 31, 2013 the Company has received various installment loans totaling CDN$105,185 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.

As of March 31, 2013, 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.

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 three month period ended March 31, 2013. 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 March 31, 2013 totaled $(693,348) (December 31, 2012 - $(634,221)).

11. 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.

12. 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 $100 (2012 - $2,000).

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 March 31, 2013, 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 March 31, 2013, the Company had current assets of $60,860 (December 31, 2012 - $69,468) and current liabilities of $754,208 (December 31, 2012 - $703,689). 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 $693,348 (December 31, 2012 - $634,221 working capital deficiency).

12. 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.

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,	
	March 31, 2013	December 31, 2012
	$	$
HST Receivable	**11,810**	10,774
Total Trade and Other Receivables	**$ 11,810**	$ 10,774

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

	As at,	
	March 31, 2013	December 31, 2012
	$	$
Over 3 months	**11,810**	10,774
Total Trade and Other Receivables	**$ 11,810**	$ 10,774

At March 31, 2013, 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 March 31, 2013.

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,	
	March 31, 2013	December 31, 2012
	$	$
Less than 1 month	**-**	15,769
1-3 months	**36,696**	9,041
Over 3 months	**560,433**	548,946
Total Trade and Other Payables	**$ 597,129**	$ 573,756

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. PROMISSORY NOTES PAYABLE

As of March 31, 2013, the Company received various installment loans totaling CDN$105,185 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.

As of March 31, 2013, 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 March 31, 2013, total principal and interest owing on the above notes was $134,146 (December 31, 2012 - $129,933).

17. SEGMENTED INFORMATION

Operating Segments

At March 31, 2013 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 period/year ended,	**March 31, 2013**	December 31, 2012
	$	$
Net loss		
North America	**41,070**	668,888
Peru	**23,660**	357,340
	64,730	1,026,228

As at,	**March 31, 2013**	December 31, 2012
Total assets		
North America	**16,364**	22,347
Peru	**44,496**	47,121
	60,860	69,468

18. 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.