Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)

Financial Statements

December 31, 2012 and 2011

Management's Responsibility for Financial Reporting

The preparation and presentation of the accompanying financial statements are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee which is independent from management.

The Audit Committee is appointed by the Board of Directors and has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

"*John S. Brock*" *(signed)*
John S. Brock
President and Chief Executive Officer

"*Lei Wang*" *(signed)*
Lei Wang
Chief Financial Officer

April 8, 2013

April 8, 2013

Independent Auditor's Report

To the Shareholders of Pacific Ridge Exploration Ltd.

We have audited the accompanying financial statements of Pacific Ridge Exploration Limited, which comprise the statements of financial position as at December 31, 2012 and December 31, 2011 and the statements of comprehensive income (loss), cash flows and changes in shareholders' equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pacific Ridge Exploration Ltd. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP
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Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Financial Position
(Expressed in Canadian dollars)

		December 31, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		$ 594,210	$ 3,237,913
HST receivables		19,384	34,373
Prepaid		15,000	15,000
		628,594	3,287,286
Equipment	Note 4	27,034	38,620
Resource properties	Note 5	1,104,212	948,232
		$ 1,759,840	$ 4,274,138
Liabilities			
Current liabilities			
Trade payable and accrued liabilities		$ 129,926	$ 185,211
Shareholders' Equity			
Share capital	Note 6	42,667,978	42,620,478
Contributed surplus		2,981,590	2,868,863
Deficit		(44,019,654)	(41,400,414)
		1,629,914	4,088,927
		$ 1,759,840	$ 4,274,138

Nature of operations and going concern – Note 1

Approved by the Board of Directors and authorized for issue on April 8, 2013

"John S. Brock" (signed)
John S. Brock

"Douglas Proctor"(signed)
Douglas Proctor

(The accompanying notes are an integral part of the financial statements)

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Comprehensive Income (Loss)
(Expressed in Canadian dollars)

			Year ended December 31,		
			2012		**2011**
Administration expenses					
Depreciation		$	11,586	$	16,552
Insurance			26,152		25,026
Professional fees			75,498		83,085
Management and administrative services			150,073		124,657
Office operations and facilities			110,904		115,223
Shareholder communications and investor relations			151,434		253,666
Share-based payments			112,727		283,297
Transfer agent and regulatory fees			29,177		36,691
			667,551		938,197
Other expenses (income)					
Exploration and evaluation costs	Note 5(g)		1,973,891		3,428,347
Gain on sale of property			-		(125,221)
Impairment			-		96,000
Interest			(22,202)		(25,828)
Government grant			-		(14,889)
			1,951,689		3,358,409
Comprehensive loss for the year		$	(2,619,240)	$	(4,296,606)
Basic and diluted loss per common share		$	(0.04)	$	(0.08)
Weighted average number of common shares outstanding			70,312,333		56,215,362

(The accompanying notes are an integral part of the financial statements)

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2012	2011
Cash flows used in operating activities		
Loss for the period	$ (2,619,240)	$ (4,296,606)
Items not affecting cash		
Depreciation	11,586	16,552
Gain on sale of property	-	(125,221)
Impairment	-	96,000
Share-based payments	112,727	283,297
	(2,494,927)	(4,025,978)
Changes in non-cash working capital items		
Other receivables	14,989	3,210
Prepaid	-	2,375
Trade payable and accrued liabilities	(55,285)	15,898
	(40,296)	21,483
	(2,535,223)	(4,004,495)
Cash flows used in investing activities		
Resource property acquisition costs	(108,480)	(232,739)
Proceeds on sale of property		150,000
Reclamation bond		10,000
	(108,480)	(72,739)
Cash flows from financing activities		
Proceeds from share issuance	-	2,485,070
Decrease in cash and cash equivalents	(2,643,703)	(1,592,164)
Cash and cash equivalents - beginning of year	3,237,913	4,830,077
Cash and cash equivalents - end of year	$ 594,210	$ 3,237,913
Cash and cash equivalents comprises		
Cash and cash equivalents comprises	$ 36,720	$ 1,703,719
Term deposits	557,490	1,534,194
	$ 594,210	$ 3,237,913

(The accompanying notes are an integral part of the financial statements)

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Common Shares								
	Shares		Amount		Contributed Surplus		Deficit		Total Shareholders' Equity
Balance at December 31, 2010	52,269,911	$	39,593,241	$	2,920,733	$	(37,103,808)	$	5,410,166
Equity offering, net of issuance costs	10,442,858		1,342,606		36,854		-		1,379,460
Shares issued for property	600,000		207,000		-		-		207,000
Share purchase warrants exercised	6,554,667		1,418,176		(364,816)				1,053,360
Stock options exercised	247,500		59,455		(7,205)				52,250
Share-based payments	-		-		283,297		-		283,297
Net loss for the year	-		-		-		(4,296,606)		(4,296,606)
Balance at December 31, 2011	70,114,936	$	42,620,478	$	2,868,863	$	(41,400,414)	$	4,088,927
Balance at December 31, 2011	70,114,936	$	42,620,478	$	2,868,863	$	(41,400,414)	$	4,088,927
Shares issued for property	700,000		47,500						47,500
Share-based payments	-				112,727		-		112,727
Net loss for the year	-		-		-		(2,619,240)		(2,619,240)
Balance at December 31, 2012	70,814,936	$	42,667,978	$	2,981,590	$	(44,019,654)	$	1,629,914

(The accompanying notes are an integral part of the financial statements)

1. Nature of operations and going concern

Pacific Ridge Exploration Ltd. (the "Company" or "Pacific Ridge") is in the business of acquiring and exploring resource properties in Canada. Pacific Ridge is incorporated and domiciled in Canada under the *Business Corporations Act* (British Columbia). The address of its registered office is 1710 – 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2L3.

The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary capital to finance the operations and contribution from future joint venture partners. Due to market fluctuations and the inherent risks in the exploration industry, there can be no assurance that management's future actions will be successful.

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharges its liabilities in the normal course of business. As at December 31, 2012, the Company had an accumulated deficit of $44,019,654 (2011 - $41,400,414) and working capital of $498,668 (2011 - $3,102,075). Completion of the acquisition, exploration and development of its resource properties is dependent on the Company's ability to obtain the necessary on going financing.

The lack of sufficient committed funding for the next 12 months lends significant doubt as to the ability of the Company to meet its commitments as they become due and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern. The Company intends to fund its plan of operations from existing working capital and the proceeds of future financings. Future financings are expected to be obtained through joint ventures, equity financing, and/or other means. While The Company has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

These financial statements do not reflect the adjustments to the carrying value of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. Such adjustments could be material.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective as of December 31, 2012. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, the Company's functional currency.

The financial statements were approved by the Board of Directors on April 8, 2013.

The summary of significant accounting policies used in the preparation of these financial statements is described below:

2. Summary of significant accounting polices (Cont'd)

a) Foreign currency translation

The presentation currency and the functional currency of the Company is the Canadian dollar ("$"). The Company's foreign currency transactions are translated into the Canadian dollar at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities are translated using period end exchange rates with any gains and losses included in the determination of operating results.

b) Cash and cash equivalents

Cash and cash equivalents include high-liquid investments that are readily convertible to known amounts of cash with no penalties and have initial maturities of three months or less. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

c) Equipment

Equipment is recorded at cost less accumulated amortization and impairment. Depreciation is provided on a declining balance basis at the annual rate of 30% for all equipment.

d) Resource property acquisition costs

Resource properties consist of payments to acquire exploration and mining claims and property option payments. Acquisition costs are capitalized and deferred until such a time as the property is put into production or the property is disposed of either through sale or abandonment, or the property becomes impaired. If a property is put into production the costs of the acquisition will be amortized over the life of the property on a unit-of-production basis based on the estimated proven and probable reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in the operations for the year. If a property is abandoned or has become impaired, the acquisition costs will be written off or written down to operations.

Recorded costs of resource properties are not intended to reflect present or future values of the properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, those changes in future conditions could require a material change in the recognized amount.

e) Exploration and evaluation costs

Exploration and evaluation expenditures are expensed as incurred, until the property reaches the development stage. The development stage is considered to begin once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable. All direct costs related to the acquisition of resource property interests are capitalized. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

2. Summary of significant accounting polices (Cont'd)

f) Government grants

Government grants are assistance in cash on eligible mineral exploration expenditures incurred. The government grants are recorded in comprehensive income when the amount is reliably measurable and it is probable the grant will be recovered.

g) Flow-through shares

The Company finances a significant portion of its exploration activities through financings in which flow-through common shares are issued. These shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance of flow-through shares, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. Upon qualifying expenditures being incurred, the premium liability is de-recognized to other income.

h) Share-based payments

The Company has a stock option plan that is described in note 6. Share-based payments to employees are measured at the fair value of the instruments issued and are amortized over the vesting periods using a graded attribution approach. Share-based payments to non-employees are measured at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of the goods or services cannot be reliably measured), and are recorded at the date the goods or services are received. If and when the stock options or warrants are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

i) Income taxes

Deferred income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax assets or liabilities are calculated using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be settled or realized. Deferred tax assets are recognized only to the extent that it is probable that they will be realized.

j) Earnings/(loss) per common share

Basic earnings (loss) per share are computed by dividing income (or loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period.

The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The effect of potential issuances of shares from the exercise of outstanding options and warrants would be anti-dilutive for the periods presented and accordingly, basic and diluted loss per share are the same.

2. Summary of significant accounting polices (Cont'd)

k) Financial instruments

Financial instruments are classified as one of the following: fair value through profit and loss, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss accordingly.

l) Impairment

Non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

m) Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Resource properties: The carrying value of the Company's mineral property is reviewed by management quarterly, or whenever events or circumstances indicate that its carrying amount may not be recovered. Management considers certain impairment indicators such as market capitalization of the Company, changes in commodity prices, plans for the properties and the results of exploration to date.

3. Future accounting changes

Unless otherwise noted, the following revised standards and amendments are effective for the Company for annual periods beginning on or after January 1, 2013 (unless otherwise noted) with earlier application permitted. The Company anticipates that the adoption of these standards will have no material impact on the Company's financial statements.

(Expressed in Canadian dollars)

3. Future accounting changes (Cont'd)

a) IFRS 9, *Financial Instruments,* addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

   For financial liabilities, the standard retains most of the IAS 39 requirements, except that fair value changes due to credit risk for liabilities designated as FVTPL would generally be recorded in other comprehensive income.

   IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

b) IFRS 13, *Fair Value Measurement*, was issued on May 12, 2011 and establishes a single framework for measuring fair value where it is required by other standards. IFRS 13 applies to all transactions (whether financial or non-financial) for which IFRS requires or permits fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2, *Share-based Payment;* leasing transactions within the scope of IAS 17, *Leases*; and measurements that have some similarities to fair value but are not fair value, such as net realizable value under IAS 2 Inventories or value in use under IAS 36 Impairment of Assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

c) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

4. Equipment

Equipment is carried at cost less accumulated depreciation with details listed below:

	Cost	Accumulated depreciation	Carrying value
Balance, December 31, 2010	$ 89,991	$ (34,819)	$ 55,172
Additions	-	(16,552)	(16,552)
Balance, December 31, 2011	89,991	(51,371)	38,620
Additions	-	(11,586)	(11,586)
Balance, December 31, 2012	$ 89,991	$ (62,957)	$ 27,034

(Expressed in Canadian dollars)

5. Resource properties

The Company has interests in mineral properties in Nunavut, and Yukon, Canada. A summary of capitalized acquisition costs is as follows:

	Mariposa	Gold Cap	Polar Stewart	Eureka Dome	Fyre Lake	Baker Uranium	PTL	Total
Balance, December 31, 2010	$ 220,192	$ 10,300	$ 215,000	$ 27,300	$ 35,701	$ 96,000	$ -	$ 604,493
Additions during the year	246,869	-	132,500	14,490	16,380	-	29,500	439,739
Impairment	-	-	-	-	-	(96,000)	-	(96,000)
Balance, December 31, 2011	467,061	10,300	347,500	41,790	52,081	-	29,500	948,232
Additions during the year	46,000	-	67,500	-	18,480	-	24,000	155,980
Balance, December 31, 2012	$ 513,061	$ 10,300	$ 415,000	$ 41,790	$ 70,561	$ -	$ 53,500	$ 1,104,212

a) Mariposa property, Yukon

In October 2009, the Company entered into an option agreement to acquire a 100% interest in 203 claims, located in Dawson Mining District, Yukon, known as the Mariposa property. The principal terms of the option agreement require the Company to pay $120,000 in cash, issue 4,000,000 common shares and incur $600,000 (incurred) exploration expenditures over five years as follows:

	Cash	Shares	Cumulative work expenditures
On initial date (paid and issued)	$ 20,000	250,000	$ 100,000
On or before October 1, 2010 (paid and issued)	20,000	200,000	$ 200,000
On or before October 1, 2011 (paid and issued)	20,000	300,000	$ 300,000
On or before October 1, 2012 (paid and issued)	20,000	400,000	$ 400,000
On or before October 1, 2013	20,000	400,000	$ 600,000
On or before October 1, 2014	20,000	450,000	
Upon production notice being given		1,000,000	
Upon commencement of commercial production		1,000,000	
	$ 120,000	4,000,000	$ 600,000

The property is subject to a 2% net smelter return ("NSR") that may be purchased, at any time after a production notice has been given in amounts of $1,000,000 for each 1% of NSR.

b) PTL property, Yukon

On May 27, 2011, the Company entered into an option agreement with a private vendor to earn a 100% interest in 39 mineral claims located in the Dawson Mining District, Yukon, north-western area of the Mariposa property, known as the PTL property. In consideration the Company may pay a total of $85,000 and issue a total of 200,000 of common shares as follows:

(Expressed in Canadian dollars)

5. Resource properties (continued)

b) PTL property, Yukon, continued

		Cash	Common Shares
On or before June 30, 2011(paid and issued)	$	15,000	50,000
On or before June 30, 2012 (paid and issued)		20,000	50,000
On or before June 30, 2013		20,000	50,000
On or before June 30, 2014		30,000	50,000
	$	85,000	200,000

The property is subject to a 2% NSR that may be purchased in amounts of $1,000,000 for each 1% of NSR.

c) Polar Stewart property, Yukon

In July 2009, the Company entered into an option agreement, amended in October 2012, with Ryanwood Exploration Inc. ("Ryanwood") to acquire a 100% interest in 149 mineral claims located in Dawson City, Yukon, known as the Polar Stewart property. In consideration the Company will pay $300,000, issue 1,250,000 common shares and undertake exploration expenditures totalling $1,000,000 by December 31, 2016 ($96,946 incurred) as follows:

		Cash	Common Shares
On initial date (paid and issued)	$	75,000	250,000
On or before June 30, 2010 (paid and issued)		65,000	250,000
On or before June 30, 2011 (paid and issued)		60,000	250,000
On or before June 30, 2012 (paid and issued)		50,000	250,000
On or before June 30, 2013		50,000	250,000
	$	300,000	1,250,000

The property is subject to 2% NSR and a $25,000 advance minimum royalty from 2014 onwards. 1% of the NSR may be purchased at any time for $2,000,000.

d) Baker Basin uranium project, Nunavut

The Company owns a 100% interest in the Baker Basin Uranium Project subject to an underlying agreement with Kivalliq Energy ("Kivalliq") wherein Kivalliq has the option to back-in to a 20% working interest when a prefeasibility study may be produced.

Since 2009, the property has been inactive and the Company has no future exploration plan for it. During the year ended December 31, 2011, the Baker property was written down to $nil.

e) Fyre Lake massive sulphide, Eureka Dome and GoldCap projects, Yukon

The Company acquired a 100% interest in these properties through claim staking.

(Expressed in Canadian dollars)

5. Resource properties (Cont'd)

f) Sale of Spectrum property, British Columbia

Pursuant to a sale and purchase agreement dated June 11, 2002 with Arkaroola Mining Ltd. ("Arkaroola"), the Company sold its residual rights in the Spectrum property to Arkaroola on December 7, 2011 for a gross proceed of $150,000 and incurred transaction cost of $24,779. The Company retains a 1.65% NSR on this property. The property was written down to $1 in 2002.

g) The tables below summarize the cumulative balance and exploration costs for the year ended December 31, 2012 and 2011:

	Mariposa	Other Properties	General Exploration	Total
Balance, December 31, 2010	1,352,956	396,974	142,324	1,892,254
Additions during the year				
Analytical and data report	359,767	17,389	260	377,416
Drilling	784,462	-	-	784,462
Field support	391,305	8,002	-	399,307
Fuel and transport	790,618	30,357	-	820,975
Geological services	256,007	84,140	5,110	345,257
Personnel	566,047	5,881	3,521	575,449
Travel and other	85,590	-	39,891	125,481
	3,233,796	145,769	48,782	3,428,347
Balance, December 31, 2011	$ 4,586,752	$ 542,743	$ 191,106	$ 5,320,601
Additions during the year				
Analytical and data report	162,481	5,520	2,348	170,349
Drilling	371,019	-	-	371,019
Field support	117,187	754	-	117,941
Fuel and transport	437,052	-	-	437,052
Geological services	212,145	2,617	-	214,762
Personnel	457,335	3,955	8,454	469,744
Travel and other	145,407	7,747	39,870	193,024
	1,902,626	20,593	50,672	1,973,891
Balance, December 31, 2012	$ 6,489,378	$ 563,336	$ 241,778	$ 7,294,492

6. Share capital

a) Common Share

Authorized - unlimited common shares without par value.

70,814,936 common shares were issued and outstanding as of December 31, 2012 (70,114,936 as of December 31, 2011).

700,000 common shares were issued for mineral properties during the year ended December 31, 2012.

(Expressed in Canadian dollars)

6. Share capital (Cont'd)

a) Common Share (Cont'd)

During the year ended December 31, 2011, the Company completed a non-brokered flow-through private placement by issuing 10,442,858 shares for gross proceeds of $1,462,000. The Company paid finders' fees totaling $82,540 in cash and 456,247 finders' warrants exercisable at a price of $0.14 expiring December 28, 2012.

The fair value of the warrants issued during the year was calculated using the Black-Scholes pricing with the following assumptions:

	December 31, 2011
Annual volatility	116.88%
Risk-free rate	0.93%
Expected life	1 year
Annual dividends	0%

b) Share Purchase Warrants

A summary of the warrants outstanding as of years ended December 31 is as follows:

	December 31, 2012			December 31, 2011		
	Number of Warrants		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price
Outstanding, beginning of year	456,247	$	0.14	10,432,851	$	0.27
Issued	-	$	-	456,247	$	0.14
Expired	(456,247)	$	0.14	(3,878,184)	$	0.45
Exercised	-	$	-	(6,554,667)	$	0.16
Outstanding, end of year	-	$	-	456,247	$	0.14

On December 28, 2012, 456,247 warrants expired unexercised.

(Expressed in Canadian dollars)

6. Share capital (Cont'd)

c) Stock Options

The Company has a stock option plan in place authorizing the granting of stock options to qualified optionees to purchase a total of up to 10% of the then issued and outstanding common shares of the Company. Stock options generally are granted for a maximum term of five years and expire 90 days following the termination of the optionee's agreement. The exercise price for the options is set at the closing market price of the common shares on the grant date. The vesting periods of options vary with terms determined by the board of directors. Stock option transactions and the number of stock options outstanding are summarized below:

	December 31, 2012			December 31, 2011		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Outstanding, beginning of year	2,610,000	$	0.27	1,530,000	$	0.20
Granted	2,055,000	$	0.10	1,365,000	$	0.35
Expired	(1,055,000)	$	0.23	(37,500)	$	0.30
Exercised	-	$	-	(247,500)	$	0.21
Outstanding, end of year	3,610,000	$	0.19	2,610,000	$	0.27
Exercisable, end of year	2,882,500	$	0.21	2,022,500	$	0.25

As of December 31, 2012, the weighted average remaining life for stock option outstanding was 3.43 years (December 31, 2011 – 3.6 years) and exercisable 3.09 years (December 31, 2011 – 3.44 years). The vesting average period for stock options is 50% on grant and 50% one year after the grant.

Stock options outstanding and exercisable at the end of the year have the following expiry date and exercise prices:

			December 31, 2012		December 31, 2011	
Expiry date		Exercise price	Options Outstanding	Options Exercisable	Options Outstanding	Options Exercisable
January 29, 2015	$	0.20	1,310,000	1,310,000	1,310,000	1,310,000
January 6, 2016		0.30	400,000	400,000	1,015,000	570,000
May 12, 2016		0.30	45,000	45,000	45,000	22,500
June 2, 2016		0.35	-	-	40,000	20,000
July 29, 2016		0.61	200,000	200,000	200,000	100,000
May 24, 2017		0.10	1,155,000	677,500	-	-
December 5, 2017		0.10	500,000	250,000		
			3,610,000	2,882,500	2,610,000	2,022,500

The Company applies the fair value method of accounting for stock options. Option pricing models require the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(Expressed in Canadian dollars)

6. **Share capital (Cont'd)**

c) Stock Options (Cont'd)

The fair value of options granted was estimated at the grant date based on the Black-Scholes option-pricing model, using the following assumptions:

	December 31, 2012	December 31, 2011
Risk-free interest rate	1.21%	1.93%
Expected share price volatility	105.83%	106.82%
Expected option life in years	3.5	3.5
Expected dividend yield	Nil	Nil

The expected share price volatility is calculated using historical weekly share prices for a 3.5 year period.

7. Related parties

Related parties include the board of directors and officers, close family members and enterprises that are controlled by these individuals as well as certain consultants performing similar functions.

The Company has no compensation arrangements with its board of directors other than non-cash stock option grants. The Company has no termination benefits, post-employment benefits and other long-term benefits in place. Key management includes the board of directors and executive officers. Compensation awarded to key management is listed below:

	Year ended December 31	
	2012	2011
Salary	$ 243,333	$ 242,500
Share-based payments, non-cash	72,338	209,200
	$ 315,671	$ 451,700

8. Capital management

The Company's objective in managing its capital is to maintain the ability to continue as a going concern and to continue to explore on various properties for the benefits of its stakeholders. The Company's operations have been and will continue to be funded by the sale of equity to investors.

The Company's capital includes the components of shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral property interests and associated administration expenses. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget on all exploration projects and overheads to manage costs, commitments and exploration activities.

Please refer to Note 1 for further information.

9. Financial instruments

The Company has classified cash and cash equivalents and other receivables as loans and receivables; accounts payable and accrued liabilities are classified as other financial liabilities.

Fair values

As at December 31, 2012, the recorded amounts for cash and cash equivalents and other receivables approximate their fair values due to their short-term nature. The lack of sufficient funding for the next 12 months lends significant doubt as to the Company's ability to meet its commitments as they become due. Accordingly, the fair value of accounts payable and accrued liabilities may be lower than the amounts recorded in the financial statements. Please refer to Note 1 for further information.

Interest rate risk

The Company’s cash held in financial institutions earns interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a material impact on the expected cash flows.

Credit risk

The Company has its cash and cash equivalents deposited with a large, federally insured, commercial financial institutions. The balance of the receivables is not significant.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. At December 31, 2012, the Company had cash and cash equivalents of $594,210 (2011- $3,237,913).

Please refer to Note 1 for further information.

(Expressed in Canadian dollars)

10. Income taxes

Reconciliation between the Company's income tax provision computed at statutory rates to the reported income tax (recovery) expense for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Statutory tax rate	25.0%	26.5%
Loss for the year	$ (2,619,240)	$ (4,296,606)
Expected income tax recovery	(654,810)	(1,138,601)
Non-deductible expenses	389,353	672,418
Change in unrecognized deferred income tax assets	265,457	466,183
Income tax (recovery) expense	$ -	$ -

A potential future income asset of approximately $6,454,241 arises from the following:

	December 31, 2012	December 31, 2011
Non-capital loss carry-forwards	$245,340	$224,534
Equipment	168,365	165,468
Mineral property	5,959,446	5,691,413
Deferred financing costs	81,090	107,369
Total unrecognized deferred income tax assets	6,454,241	6,188,784

The Company has not recorded potential deferred income tax assets as the Company does not have any current source of income to which the tax losses can be applied.

At December 31, 2012, included in the computation of the future tax assets noted above, the Company had approximately $981,360 of losses available for carry-forward and $24,953,892 of resource pools. The loss carry-forward can be offset against income for Canadian income tax purposes in future years and will expire between 2014 and 2032 as below:

2014	$	185,607
2015		136,176
		-
2029		153,737
2030		239,449
2031		183,166
2032		83,225
	$	981,360

11. Segmented information

The Company has one business segment, the exploration of mineral properties. All of the Company's assets and operation activities are located in Canada.

12. Subsequent events

a) The Company entered into an option agreement with True North Gems Inc. ("True North") to acquire 43 mineral claims located in the Watson Lake Mining Division, Yukon, known as the Straw property. In order to earn a 100% interest in the property, the Company is required to pay an aggregate amount of $25,000 and issue 400,000 shares of the Company by January 31, 2014. On January 29, 2013, $15,000 was paid and 250,000 common shares were issued to True North.

b) The Company is seeking its shareholders' approval to consolidate its common share on the basis of up to one-new-for-five-old on the Annual General Meeting on April 12, 2013.