



LITHIC RESOURCES LTD.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE
YEAR ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Lithic Resources Ltd.

We have audited the accompanying consolidated financial statements of Lithic Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss and cash flows for the years then ended, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, these consolidated financial statements present fairly, in all material respects, the financial position of Lithic Resources Ltd. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 24, 2013



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian funds)

	December 31, 2012	December 31, 2011
ASSETS		
Current		
Cash (Note 4)	\$ 704,579	\$ 435,539
Receivables (Note 5)	20,045	9,824
Prepays	14,385	5,153
Marketable securities (Note 6)	3,125	6,750
	742,134	457,266
Reclamation deposit (Note 7)	76,300	77,035
Exploration and evaluation assets (Note 7)	5,168,082	5,086,092
	\$ 5,986,516	\$ 5,620,393
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 52,562	\$ 68,077
	52,562	68,077
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	12,251,191	11,522,296
Reserves - share-based	1,469,779	1,308,810
Reserves - accumulated other comprehensive income	835	4,460
Deficit	(7,787,851)	(7,283,250)
	5,933,954	5,552,316
	\$ 5,986,516	\$ 5,620,393

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 16)

Approved on behalf of the Board:

"C.F. Staargaard"

C.F. Staargaard, Director

"Steve Vanry"

Steve Vanry, CFO

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

Lithic Resources Ltd.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Expressed in Canadian funds)

	Shares Issued	Share Capital	Reserves – Share- Based	Reserves - Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance December 31, 2010	41,455,519	\$11,244,081	\$1,265,855	\$ 8,880	\$(6,802,683)	\$5,716,133
Issuance of shares	3,250,000	260,000	-	-	-	260,000
Cost of shares issuance	-	(43,240)	-	-	-	(43,240)
Units issued as finders' fee	210,000	16,800	-	-	-	16,800
Exercise of warrants	62,500	9,375	-	-	-	9,375
Exercise of stock options	200,000	20,000	-	-	-	20,000
Reclassification on exercise of stock options	-	15,280	(15,280)	-	-	-
Share-based compensation	-	-	58,235	-	-	58,235
Unrealized loss on marketable securities	-	-	-	(4,420)	-	(4,420)
Loss and comprehensive loss for the year	-	-	-	-	(480,567)	(480,567)
Balance December 31, 2011	45,178,019	\$11,522,296	\$1,308,810	\$4,460	\$(7,283,250)	\$5,552,316
Issuance of shares	15,000,000	750,000	-	-	-	750,000
Cost of share issuance	-	(21,105)	-	-	-	(21,105)
Share-based compensation	-	-	136,672	-	-	136,672
Share-based compensation allocated to exploration and evaluation Assets	-	-	24,297	-	-	24,297
Unrealized loss on marketable securities	-	-	-	(3,625)	-	(3,625)
Loss and comprehensive loss for the year	-	-	-	-	(504,601)	(456,986)
Balance December 31, 2012	60,178,019	\$12,251,191	\$1,469,779	\$835	\$(7,787,851)	\$ 5,933,954

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

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian funds)

	For the year ended	
	December 31, 2012	December 31, 2011
EXPENSES		
Communication and investor relations	\$ 39,769	\$ 67,612
Filing and regulatory	23,155	21,486
Foreign exchange loss (gain)	1,938	(715)
Management fees	168,000	168,000
Office and miscellaneous	18,016	39,330
Professional fees	82,589	104,290
Rent	21,600	20,600
Share-based compensation (Note 9)	136,672	58,235
Travel	17,708	7,810
	(509,447)	(486,648)
Interest income	4,846	6,081
Loss for the year	(504,601)	(480,567)
Other comprehensive loss:		
Unrealized loss on marketable securities	(3,625)	(4,420)
Loss and comprehensive loss for the year	\$ (508,226)	\$ (484,987)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)
Weighted average shares outstanding	51,506,786	44,875,498

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian funds)

	For the year ended	
	December 31, 2012	December 31, 2011
OPERATING ACTIVITIES		
Loss for the year	\$ (504,601)	\$ (480,567)
Items not involving cash:		
Share-based compensation	136,672	58,235
Unrealized foreign exchange loss (gain) on reclamation deposit	735	(745)
Change in operating assets and liabilities:		
Decrease (increase) in receivables	(10,221)	4,549
Increase in prepaids	(9,232)	(87)
Decrease in accounts payable and accrued liabilities	(8,953)	(5,601)
Cash used in operating activities	(395,600)	(424,216)
FINANCING ACTIVITIES		
Proceeds from share issuance	750,000	289,375
Share issue costs	(20,881)	(26,440)
Cash provided by financing activities	729,119	262,935
INVESTING ACTIVITIES		
Exploration and evaluation assets	(64,479)	(158,083)
Cash used in investing activities	(64,479)	(158,083)
Increase(decrease) in cash during the year	269,040	(319,364)
Cash, beginning of year	435,539	754,903
Cash, end of year	\$ 704,579	\$ 435,539
	For the year ended	
Supplemental cash flow information	December 31, 2012	December 31, 2011
Interest paid	\$ -	\$ -
Income taxes paid	-	-

Supplemental disclosure with respect to cash flows (Note 11)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Lithic Resources Ltd. (the "Company") was incorporated on October 24, 1997 under the laws of British Columbia. The Company's head office is at 912 - 510 West Hastings Street, Vancouver, B.C., Canada, V6B 1L8. The Company is listed on the TSX Venture Exchange under the trading symbol LTH.V

The consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency of the parent company and its subsidiary, unless otherwise indicated.

The Company's principal business activities include the acquisition and exploration of mineral exploration and evaluation assets. Its current focus is on a mineral property domiciled in the United States. The Company has not yet determined whether this exploration and evaluation asset contains ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing and to develop profitable operations. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The continuance of the Company's operations is dependent on obtaining sufficient additional financing in order to realize the recoverability of the Company's investments in exploration and evaluation assets which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals. Management closely monitors metal commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company if favourable or adverse market conditions occur. Management estimates it will have sufficient working capital to continue operations for the next 12 months. As of December 31, 2012 the Company had working capital of \$689,572 (December 31, 2011 - \$389,189) and accumulated deficit of \$7,787,851 (December 31, 2011 - \$7,283,250).

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Accounting Standards ("IAS") 1, "Presentation of Financial Statements" and utilize accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were authorized for issue by the audit committee and Board of Directors on April 24, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

The consolidated financial statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the following accounting policies. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

Basis of consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary N.P.R. (US) Inc., a Nevada corporation. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company transactions and balances have been eliminated upon consolidation.

Foreign currency transactions

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which the Company operates.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Non-monetary items are translated into Canadian dollars at the exchange rate in effect on the respective transaction dates. Revenues and expenses are translated at average rates for the year, except for amortization, which is translated on the same basis as the related asset. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of exploration and evaluation assets, determination of functional currency, valuation of share-based compensation and other equity based payments, and the recoverability and measurement of deferred tax assets and liabilities.

Critical judgments exercised in apply accounting policies that have the most significant effects on the amounts recognized in the financial statements are as follows:

Economic recoverability and probability of future economic benefits of exploration and evaluation assets

Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Use of estimates (continued)**

existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income taxes

In assessing the probability of realizing deferred tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Exploration and evaluation assets

Pre-exploration costs are expensed as incurred.

Costs directly related to the exploration and evaluation of mineral properties are capitalized once the legal rights to explore the mineral properties are acquired or obtained. When the technical and commercial viability of a mineral resource have been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and amortized over the estimated useful life of the property following commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Exploration and evaluation assets are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Capitalized amounts include the cash or other consideration and the assigned value of shares issued, if any, on the acquisition of exploration and evaluation assets. Costs related to properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The Company does not accrue estimated future costs of maintaining its exploration and evaluation assets in good standing.

Capitalized costs as reported on the statements of financial position represent costs incurred to date and may not reflect actual, present, or future values. Recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the exploration and evaluation property interests.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Exploration and evaluation assets (continued)**

Management evaluates each mineral interest on a reporting period basis or as events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to which costs are capitalized or charged as impairment charges. Write-downs due to impairment in value are charged to profit or loss.

Exploration and evaluation assets, where future cash flows are not reasonably determinable, are evaluated for impairment based on results of exploration work, management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

General exploration costs not related to specific properties and general administrative expenses are charged to profit or loss in the year in which they are incurred.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in amount and timing of the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The Company has no restoration and environmental obligations for the years presented.

Impairment of assets

The carrying amount of the Company's assets (which includes exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the profit or loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of assets (continued)**

using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share purchase warrants and stock options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are recognized as a deduction from equity, net of tax.

Valuation of equity units issued in private placements:

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing price on the issuance date, the balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded to reserves. If the warrants expire unexercised, the value attributed to the warrants is transferred to deficit.

Share-based compensation

The Company uses the fair value based method of accounting for stock options granted to employees and directors and for compensatory warrants. Under this method, the fair value of the stock options and compensatory warrants are determined using the Black-Scholes option pricing model. The fair value of stock options is recognized to expense over the vesting period, and the fair value of compensatory warrants is recognized as share issuance costs, with the offsetting credit to reserves. If the stock options or warrants are exercised, the proceeds are credited to share capital and the fair value of the options or warrants exercised are reclassified from reserves to share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Basic and diluted loss per share**

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

Financial instrumentsFinancial assets

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. The Company classifies cash as fair value through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. The Company classifies receivables and reclamation deposits as loans and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized profit or loss. The Company classifies marketable securities as available-for-sale.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities: This category consists of liabilities carried at amortized cost using the effective interest method, and includes accounts payable and accrued liabilities.

For the years presented, the Company did not have any derivative financial assets and liabilities.

Income taxes*Current income tax:*

Current income tax assets and liabilities for the current period 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, at the reporting date, in the country where the Company operates and generates taxable income.

Deferred tax:

Deferred taxes are recognized in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The Company has not recognized any deferred tax assets for the years presented.

Deferred 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 by the end of the reporting period.

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

New accounting standards not yet adopted

The following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2013 unless otherwise stated. Adopting these standards is expected to have minimal or no impact on the consolidated financial statements.

- a) IFRS 7 – Financial Instruments: Disclosures applies to offsetting financial assets and financial liabilities in accordance with IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**New accounting standards not yet adopted (continued)**

b) IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The amendments are effective for annual periods beginning on or after January 1, 2015 with early adoption permitted

c) IFRS 10 – Consolidation replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The amendments are effective for annual periods beginning on or after January 1, 2013.

d) IFRS 12 – Disclosure of Interests in Other Entities in May 2011 and it applies to annual periods beginning on or after January 1, 2013. IFRS 12 requires disclosure of an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The Company is evaluating the impact the final standard will have on its consolidated financial statements.

e) IFRS 13 – Fair Value Measurement is a comprehensive standard that defines fair value, requires disclosure about fair value measurement and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2013.

f) IAS 1 – Presentation of Financial Statements amendment requires components of other comprehensive income (OCI) to be separately presented between those that may be reclassified to income and those that will not. The amendments are effective for annual periods beginning on or after July 1, 2012.

g) IAS 27 – Separate Financial Statement addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. The amendments are effective for annual periods beginning on or after January 1, 2013.

h) IAS 32 – Financial Instruments: Presentation amendment provides clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after January 1, 2014.

4. CASH

Cash is comprised of cash in Canadian and US financial institutions:

	December 31, 2012	December 31, 2011
Cash in US financial institutions	\$ 8,146	\$ 4,782
Cash in Canadian financial institutions	696,433	430,757
Total cash	\$ 704,579	\$ 435,539

5. RECEIVABLES

Trade and other receivables were comprised of the following:

	December 31, 2012	December 31, 2011
Harmonized sales tax receivable	\$ 20,045	\$ 9,824

6. MARKETABLE SECURITIES

Marketable securities are classified as available for sale financial instruments, which are adjusted to market value. As at December 31, 2012 the fair market value of the securities held was \$3,125 (2011 - \$6,750).

7. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets involves inherent risks due to difficulties of determining the validity of certain mineral claims and leases as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets. The Company has investigated title to its exploration and evaluation asset and, to the best of its knowledge, title is in good standing.

West Desert Property (formerly known as Crypto Zinc Property)

The Company holds a 100% interest in various mining claims and a mineral lease referred to as the West Desert Property (formerly known as Crypto Zinc Property), located in Utah, USA.

The following table represents expenditures incurred on the exploration and evaluation assets during the year ended December 31, 2012:

	West Desert
Acquisition costs	
Balance, beginning and end of year	\$ 381,905
Deferred exploration costs	
Balance, beginning of year	4,704,187
Additions during the year:	
Field costs	8,612
Geological wages, fees and costs	45,726
Property holding costs, taxes and fees	27,652
	81,990
Balance, end of year	4,786,177
Total	\$ 5,168,082

7. EXPLORATION AND EVALUATION ASSETS(continued)

The following table represents expenditures incurred on the exploration and evaluation assets during the year ended December 31, 2011:

	West Desert
Acquisition costs	
Balance, beginning and end of year	<u>\$ 381,905</u>
Deferred exploration costs	
Balance, beginning of year	<u>4,530,852</u>
Additions during the year:	
Field costs	27,019
Geological wages, fees and costs	56,505
Property holding costs, taxes and fees	31,105
Water supply costs	<u>58,706</u>
	<u>173,335</u>
Balance, end of year	<u>4,704,187</u>
Total	<u>\$ 5,086,092</u>

Reclamation deposit

The Company has reclamation bonds of \$76,300 (2011 - \$77,035) to cover potential disturbances on the property.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were comprised of the following:

	December 31, 2012	December 31, 2011
Trade payables	\$ 30,987	\$ 46,523
Due to related parties	21,575	21,554
Total	\$ 52,562	\$ 68,077

9. SHARE CAPITAL AND RESERVES
[a] Common shares

The Company has authorized share capital of unlimited common shares without par value.

During the year ended December 31, 2012, the Company completed a non-brokered private placement for gross proceeds of \$750,000 through the issuance of 15,000,000 shares at a price of \$0.05 per share. Share issuance costs were \$21,105.

9. SHARE CAPITAL AND RESERVES (continued)**[a] Common shares (continued)**

During the year ended December 31, 2011, the Company completed a non-brokered private placement for gross proceeds of \$260,000 through the issuance of 3,250,000 units at a price of \$0.08 per unit. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitled the holder to acquire one additional common share at a price of \$0.15 per common share until July 27, 2012. Share issuance costs consisted of \$26,440 and 210,000 finder's units, valued at \$16,800. Each finder's unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitled the holder to acquire one additional common share at a price of \$0.15 per common share until July 27, 2012. The warrants expired unexercised during the year ended December 31, 2012.

[b] Stock options

The Company grants stock options to employees and consultants as compensation for services, pursuant to its incentive Share Option Plan (the "Plan"). Options issued must have an exercise price greater than or equal to the "Discounted Market Price" of the Company's stock on the grant date. Options have a maximum expiry period of up to five years from the grant date and vest at such time as may be determined by the Board of Directors at the date of the grant. Options granted to consultants performing investor relations activities shall vest in stages over a 12-month period with a maximum of one-quarter of the options vesting in any three-month period. The number of options that may be issued under the Plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date.

During the year ended December 31, 2012 the Company granted 2,650,000 incentive stock options (2011 – 300,000) with 50% vesting upon grant and 50% vesting on the one-year anniversary of grant. Certain of the options granted to a consultant to the Company vest as to; 50% on grant and 50% at the discretion of the Company's board of directors. During fiscal 2012, the Company expensed \$136,672 and capitalized \$24,297 (2011 - \$58,235 and \$nil), which was recorded in share-based compensation, exploration and evaluation assets and share option reserves.

The weighted average fair value of stock options granted during the year ended December 31, 2012 was \$0.08 (2011 - \$0.19) per option.

The fair value of options granted is estimated on the grant date using the Black-Scholes option pricing model using the variables as follows:

Volatility was computed using historical volatility over the preceding periods equal to the expected life of the options.

	For the year ended December 31	
	2012	2011
Risk-free interest rate	1.31%	1.74%
Expected option life in years	5 years	2 years
Expected stock price volatility	154%	134%
Expected dividend yield	0%	0%
Expected forfeiture rate	0%	0%

9. SHARE CAPITAL AND RESERVES (continued)
Stock Options (continued)

A summary of stock options activities are as follows:

	Number of Options	Exercise Price (\$)
Balance – December 31, 2010	3,350,000	\$ 0.34
Granted in the year	300,000	0.23
Exercised in the year	(200,000)	0.10
Expired in the year	(300,000)	0.39
Balance – December 31, 2011	3,150,000	0.34 ⁽¹⁾
Granted in the year	2,650,000	0.10
Cancelled in the year	(500,000)	0.19 ⁽¹⁾
Expired in the year	(1,100,000)	0.52 ⁽¹⁾
Balance – December 31, 2012	4,200,000	\$ 0.15 ⁽¹⁾
Exercisable – December 31, 2012	2,875,000	\$ 0.18 ⁽¹⁾

⁽¹⁾ weighted average

The Company has outstanding options entitling the holder to purchase an aggregate of common shares at December 31, 2012 as follows:

Number of Options	Exercise Price	Expiry Date	Contractual life remaining(years)
300,000	\$ 0.23	February 1, 2013	0.09
450,000	0.10	February 2, 2014	1.09
800,000	0.33	January 7, 2015	2.02
2,650,000	0.10	November 2, 2017	4.84
4,200,000	\$ 0.24 ⁽¹⁾		3.56 ⁽¹⁾

⁽¹⁾ weighted average

9. SHARE CAPITAL AND RESERVES(continued)
[c] Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Exercise Price
Balance – December 31, 2010	2,724,000	\$ 0.24
Granted in the year	1,730,000	0.15
Expired in the year	(2,724,000)	0.24
Exercised in the year	(62,500)	0.15
Balance – December 31, 2011	1,667,500	\$ 0.15
Expired in theyear	(1,667,500)	0.15
Balance – December 31, 2012	nil	\$ nil

There were no warrants outstanding at December 31, 2012.

10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the year ended December 31, 2012:

Summary of key management personnel compensation:

	For the year ended December 31,	
	2012	2011
Short-term benefits paid or accrued:		
Professional fees	\$ 36,000	\$ 42,000
Management fees	168,000	168,000
Communication and investor relations	2,125	Nil
Share-based compensation	136,672	Nil
	\$ 342,797	\$ 210,000

Included in rent is \$21,600 (2011 - \$20,600) paid or accrued to a company related by a common director.

Included in accounts payable and accrued liabilities are amounts owing to related parties of \$21,575 (2011 - \$21,554).

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

For the year ended December 31, 2012, the Company's significant non-cash transactions consisted of:

- a) Share issue costs in accounts payable of \$224;
- b) Change in fair market value of marketable securities of \$3,625;
- c) Exploration and evaluation assets in account payable of \$6,035; and
- d) Share-based compensation recorded to exploration and evaluation assets of \$24,297

For the year ended December 31, 2011, the Company's significant non-cash transactions consisted of:

- a) The issuance of finder's units valued at \$16,800 related to share issue costs;
- b) The recognition of a fair value component of \$15,280 in respect of options exercised;
- c) The reclassification of \$11,155 deferred financing costs to share issue costs;
- d) Included in accounts payable and accrued liabilities is \$12,821 for exploration and evaluation assets; and
- e) The reclassification of \$2,431 prepaids to exploration and evaluation assets.

12. SEGMENTED INFORMATION

The Company operates in one industry, being mineral exploration – in two geographic segments, being Canada and the United States.

	Canada (\$)	United States (\$)	Total (\$)
December 31, 2011			
Exploration and evaluation assets	-	5,086,092	5,086,092
December 31, 2012			
Exploration and evaluation assets	-	5,168,082	5,168,082

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Cash and marketable securities are measured at fair value using level 1 inputs. The value of receivables, reclamation deposits, and accounts payable and accrued liabilities approximates their carrying values.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and price risk.

Credit risk

The Company is exposed to industry credit risks arising from its cash holdings and receivables. The Company manages credit risk by placing cash with major Canadian financial institutions. The Company's receivables are due from the Federal Government of Canada. Management believes that credit risk related to these amounts is nominal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. To manage liquidity risk, the Company reviews additional sources of capital and financing to continue its operations and discharge its commitments as they become due.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As of December 31, 2012, the Company held an interest bearing demand deposit with a face value \$648,082. A change in interest rates of 1% will change income by \$6,481 per annum.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and accounts payables and accrued liabilities that are denominated in United States Dollars. However, management believes the risk is not currently significant.

Price risk

The Company has limited exposure to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities.

14. CAPITAL MANAGEMENT

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 and exploration of exploration and evaluation assets. 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 that it manages as share capital, options and warrants

14. CAPITAL MANAGEMENT (continued)

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. 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. The Company is not subject to externally imposed capital restrictions.

15. INCOME TAXES

The following table reconciles the amount of income taxes at statutory rates:

	December 31, 2012	December 31, 2011
	\$	\$
Loss for the year	(504,601)	(480,567)
Expected income tax (recovery)	(126,000)	(127,000)
Change in statutory, foreign tax, foreign exchange rates and other	(9,000)	(13,000)
Permanent difference	(5,000)	15,000
Share issuance cost	(5,000)	(11,000)
Change in unrecognized deductible temporary differences	145,000	136,000
Total income tax expense (recovery)	-	-

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

The significant components of the Company's unrecorded deferred tax assets are as follows:

	December 31, 2012	December 31, 2011
	\$	\$
Deferred tax assets:		
Property and equipment	28,000	28,000
Non-capital losses	695,000	587,000
Exploration and evaluation assets	990,000	939,000
Share issuance costs	14,000	14,000
Canadian eligible capital (CEC)	-	14,000
Total unrecognized deferred tax assets	1,727,000	1,582,000

Tax attributes are subject to review and potential adjustment by tax authorities.

The Company has non-capital losses of approximately \$2,767,000 available to offset against taxable income in future years, which if unutilized will expire through 2032. Subject to certain restrictions, the Company also has resource exploration expenditures of approximately \$2,606,000 available to offset taxable income in future years. Deferred tax benefits that may arise as a result of these losses, resource

15. INCOME TAXES (continued)

deductions and other tax assets have not been recognized in these financial statements due to a lack of probability of their realization.

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2012:

- a) the Company granted 400,000 incentive stock options with vesting provisions such that one-quarter of the options will vest upon grant with a maximum of an additional quarter vesting every three months thereafter. Each stock option entitles the holder to acquire one common share of the Company for a price of \$0.10 per share for a period of 2-years; and
- b) 300,000 incentive stock options entitling the holder to purchase one common share of the Company for a price of \$0.23 per share, expired.