SILVER MOUNTAIN MINES INC.

Financial Statements

Years ended December 31, 2012 and 2011

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Silver Mountain Mines Inc.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of Silver Mountain Mines Inc. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee is also responsible for recommending the appointment of Silver Mountain Mines Inc.'s external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

April 4, 2013

“signed”
Director, President and CEO – Steve Konopelky

“signed”
Chief Financial Officer – Daryn Gordon

AUDITORS' REPORT

To the Shareholders of Silver Mountain Mines Inc.

We have audited the accompanying financial statements of Silver Mountain Mines Inc. which comprise the statements of financial position as at December 31, 2012 and 2011 and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for 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 misstatement.

Auditors' 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 of 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 auditors' 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 financial statement presentation.

We believe that the audit evidence obtained 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 Silver Mountain Mines Inc. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning Silver Mountain Mines Inc.'s ability to continue as a going concern. Silver Mountain Mines Inc. has a total comprehensive loss for the year of $356,193 (2011 - $836,853), accumulated deficit of $1,642,637 (2011 - $1,286,444) and negative cash from operations of $284,636 (2011 - $717,149). These conditions indicate the existence of a material uncertainty which may cast significant doubt about Silver Mountain Mines Inc.'s ability to continue as a going concern.

MNP LLP

Calgary, Canada
April 4, 2013

Chartered Accountants

SILVER MOUNTAIN MINES INC.

Statements of Financial Position
(in Canadian dollars)

As at December 31,

		2012		2011
Assets				
Current assets:				
Cash and cash equivalents	$	2,026,974	$	3,127,548
GST receivable		103,523		151,672
Interest receivable		-		22,567
Prepaid expense		25,208		37,223
		2,155,705		3,339,010
Non-current assets:				
Property and equipment (note 3)		78,598		66,839
Exploration and evaluation costs (note 4)		4,543,359		3,322,145
Reclamation bond (note 5)		27,000		7,000
		4,648,957		3,395,984
Total assets	$	6,804,662	$	6,734,994
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade accounts payable and accrued liabilities	$	42,146	$	90,278
Premium liability (note 8(b)(i))		176,125		87,815
		218,271		178,093
Non-current liabilities:				
Deferred tax liability (note 9)		391,162		318,963
Decommissioning liability (note 7)		32,731		1,565
		423,893		320,528
Total liabilities	$	642,164	$	498,621
Going concern (note 1)				
Commitments (note 12)				
Shareholders' equity:				
Share capital (note 8(b))	$	4,777,942	$	4,731,285
Warrants (note 8(c))		1,368,784		2,174,367
Contributed surplus (note 8(e))		1,658,409		617,165
Deficit		(1,642,637)		(1,286,444)
Total shareholders' equity		6,162,498		6,236,373
Total liabilities and shareholders' equity	$	6,804,662	$	6,734,994

Approved on behalf of the Board:

"signed"
Director, President and CEO – Steve Konopelky

"signed"
Director – Daniel Belot

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

SILVER MOUNTAIN MINES INC.

Statements of Comprehensive Loss
(in Canadian dollars)

Years ended December 31,

	2012	2011
Expenses		
Accretion expense (note 7)	$ 140	$ 162
Advertising and promotion	40,011	17,529
Automotive	4,018	6,086
Bank and interest charges	543	868
Consulting fees	87,604	117,794
Depreciation (note 3)	4,691	2,238
Insurance	25,556	26,874
Licenses	41,968	22,198
Meals and entertainment	8,217	19,253
Office	38,424	83,517
Professional fees	53,110	190,581
Salaries and benefits	23,510	14,730
Share-based compensation (note 8(e))	47,743	336,522
Telephone	5,102	9,301
Travel	19,314	23,691
	399,951	871,343
Interest income	28,142	39,505
Loss before deferred tax expense	(371,809)	(831,838)
Deferred tax recovery (expense) (note 9)	15,616	(5,015)
Total comprehensive loss for the year attributable to the shareholders	(356,193)	(836,853)
Basic and diluted loss per share (note 8(f))	$ (0.01)	$ (0.02)

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

SILVER MOUNTAIN MINES INC.

Statements of Changes in Equity
(in Canadian dollars)

	Number of Shares	Amount	Contributed Surplus	Warrants	Deficit	Total
Balance, January 1, 2011	28,704,301	$ 3,417,032	$ 280,643	$ 1,949,028	$ (449,591)	$ 5,197,112
Shares issued for cash, net of share issue costs (note 8(b) & (c))	6,416,297	1,314,253	-	225,339	-	1,539,592
Share-based compensation (note 8(e))	-	-	336,522	-	-	336,522
Total comprehensive loss	-	-	-	-	(836,853)	(836,853)
Balance, December 31, 2011	35,120,598	$ 4,731,285	$ 617,165	$ 2,174,367	$(1,286,444)	$6,236,373
Shares issued for cash, net of share issue costs (note 8(b) & (c))	3,522,500	46,657	-	187,918	-	234,575
Share-based compensation (note 8(e))	-	-	47,743	-	-	47,743
Expiry of warrants (note 8(c) & (e))	-	-	993,501	(993,501)	-	-
Total comprehensive loss	-	-	-	-	(356,193)	(356,193)
Balance, December 31, 2012	38,643,098	$ 4,777,942	$ 1,658,409	$ 1,368,784	$(1,642,637)	$6,162,498

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

SILVER MOUNTAIN MINES INC.

Statements of Cash Flows
(in Canadian dollars)

Years ended December 31,

	2012	2011
Cash provided by (used in):		
Operations		
Total comprehensive loss	$ (356,193)	$ (836,853)
Items not involving cash:		
Accretion expense (note 7)	140	162
Depreciation (note 3)	4,691	2,238
Share-based compensation (note 8(e))	47,743	336,522
Deferred tax expense	(15,616)	5,015
Cash used in operations	(319,235)	(492,916)
Change in non-cash working capital		
GST receivable	48,149	(123,871)
Interest receivable	22,567	(22,567)
Prepaid expense	12,015	(29,573)
Trade accounts payable and accrued liabilities	(48,132)	(48,222)
	34,599	(224,233)
Net cash used in operations	(284,636)	(717,149)
Financing		
Issuance of common shares, net of share issue costs (note 8(b))	410,700	1,643,849
Net cash provided from financing activities	410,700	1,643,849
Investing		
Additional exploration and evaluation costs (note 4)	(1,190,188)	(1,379,204)
Purchase of property and equipment (note 3)	(17,040)	(68,519)
Proceeds on disposition (note3)	590	-
Reclamation bond (note 5)	(20,000)	239
Net cash used in investing activities	(1,226,638)	(1,447,484)
Decrease in cash and cash equivalents	(1,100,574)	(520,784)
Cash and cash equivalents, beginning of year	3,127,548	3,648,332
Cash and cash equivalents, end of year	$ 2,026,974	$ 3,127,548

Cash and cash equivalents includes the following:

Cash	$ 301,475	$ 610,609
Cash held in trust	108,000	-
Short-term investments	1,617,499	2,516,939
Cash and cash equivalents	$ 2,026,974	$ 3,127,548

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

1. Nature of Operations and Continuance of Operations

Silver Mountain Mines Inc. (the "Company"), formerly Rupestris Mines Inc., was incorporated on May 12, 2008 under the laws of Alberta and on August 13, 2008 under the laws of British Columbia. The Company's principal business activity is the exploration of mineral properties in British Columbia. These financial statements were approved and authorized for issuance on April 4, 2013 by the Board of Directors. The registered office of the Company is Suite 301, 1301 – 8th Street SW, Calgary, Alberta T2R 1B7.

The financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. For the year ended December 31, 2012, the Company incurred a total comprehensive loss of $356,193 (December 31, 2011 - $836,853) and as at December 31, 2012 had an accumulated deficit of $1,642,637 (December 31, 2011 - $1,286,444).

The Company raised $422,700, during 2012 (2011 - $1,691,889) through private placements to fund the operations of the Company.

The Company is in the process of exploring its mineral property interests and has not yet determined whether the project contains mineral reserves that are economically recoverable. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral properties is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral properties, obtaining the necessary permits to mine, and future profitable production or proceeds from the disposition of the mineral properties.

The financial statements are stated in Canadian dollars which is the Company’s functional currency and have been prepared on a going concern basis, under the historical cost convention.

2. Significant Accounting Policies

(a) Statement of Compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") of the International Accounting Standards Board ("IASB"), and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect at year end.

(b) Cash and cash equivalents

Cash and cash equivalents are primarily comprised of cash, cash held in trust and short-term investments with a maturity date of three months or less at the date of purchase.

2. Significant Accounting Policies *(continued)*

(c) Property and equipment

The Company records property and equipment at cost less accumulated depreciation and accumulated impairment loss. Property and equipment include costs to purchase and any costs directly attributable to bring the asset to its current location and condition necessary for its intended use including costs of dismantling and removing the item and restoring the site on which it is located.

Expenditures for additions and improvements are capitalized and expenditures for maintenance and repairs are charged to income.

Depreciation is provided at rates calculated to write-off the cost of property and equipment, less their estimated residual value, using the declining balance method at 30% for office equipment, 100% for software and 4% for buildings per annum. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposition, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in earnings.

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

(d) Impairment

At the end of each reporting period the carrying amounts of the Company's non-financial assets are reviewed to determine whether there are any indications that the assets are impaired. The Company uses external factors, such as changes in expected future prices and costs, and other market factors are also monitored to assess for indications of impairment. If any such indication exists an estimate of the asset's recoverable amount is calculated; being the higher of fair value less direct costs to sell and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount in the statement of financial position to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of assets in an arm's length transaction between knowledgeable and willing parties. Fair values for mineral assets are generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, to arrive at a net present value of the asset.

2. Significant Accounting Policies *(continued)*

(d) Impairment *(continued)*

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and cannot take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(e) Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, exploration and evaluation activity, and the fair value, at the date of acquisition, of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained legal rights to explore an area are recognized in earnings.

Acquisition costs, including general and administration costs, are only capitalized to the extent that these costs are related to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploration or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation assets are assessed for impairment if sufficient evidence exists to determine technical feasibility and commercial viability, and facts and circumstances suggest the carrying amount exceeds the recoverable amount.

Once technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to the area of interest are first tested for impairment and then reclassified to mining property development assets within property and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependable on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(f) Share-based Payments

The share purchase option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share purchase options granted is recognized as an employee or consultant expense with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by employees.

2. Significant Accounting Policies *(continued)*

(f) Share-based Payments *(continued)*

The fair value is measured at the grant date and each tranche is recognized on a straight-line basis over the period during which the share purchase options vest. The fair value of the share purchase options granted is measured using the Black-Scholes pricing model taking into account the terms and conditions upon which the share purchase options were granted. At each statement of financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share purchase options that are expected to vest.

(g) Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred taxes. Income tax is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected income tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting period, adjusted for any income tax reassessments from prior periods.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred taxes attributable to amounts recognized directly in equity are also recognized directly in equity.

(h) Decommissioning Obligations

An obligation to incur decommissioning obligation costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. These costs are discounted to their net present value and are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such cost arises. The timing of the actual expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

2. Significant Accounting Policies *(continued)*

(h) Decommissioning Obligations *(continued)*

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through accretion. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in earnings.

Estimated costs for environmental restoration obligation costs are adjusted as changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capital costs of the related assets, in which case the capitalized cost is reduced to zero and the difference is recognized in earnings.

(i) Modification of Share Purchase Warrants

The Company may modify the terms of share purchase warrants originally granted. When modifications exist, the Company will maintain the original fair value of the of the share purchase warrant.

(j) Loss per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the total comprehensive loss for the year attributed to shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating dilutive earnings per share. Diluted loss per share does not adjust the total comprehensive loss for the year attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

(k) Financial Instruments

a. Financial Assets at Fair value through Profit and Loss ("FVTPL")

Financial assets held at fair value through profit or loss are those financial assets that are held for trading and are classified as such from the inception of the trade. This applies to assets acquired from the outset with the intention of resale in the short-term, derivatives not categorized as hedges or when the Company has elected to use this classification. These assets are initially recorded at fair value and are measured at each reporting date at fair value, based upon quoted market prices from external sources or using a discounted cash flow valuation technique or quoted prices from external sources for similar assets with a corresponding adjustment through earnings. This category includes cash and cash equivalents.

2. Significant Accounting Policies (continued)

(k) Financial Instruments *(continued)*

b. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Upon initial recognition, such financial assets are measured at fair value. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortization is included in interest income in profit or loss. The losses arising from impairment are recognized in profit or loss in finance costs for loans and in operating expense for receivables. This category includes GST receivable and interest receivable.

c. Other Financial Liabilities

Other financial liabilities are recognized on the statement of financial position if the Company has a contractual obligation to transfer cash or other assets to a third party. These liabilities are recognized at fair value of the consideration received or the value of payments received less any transaction costs. Other financial liabilities are measured at amortized cost using the effective interest rate method. This category includes trade accounts payable and accrued liabilities.

Other financial liabilities are derecognized when the contractual obligation is discharged, cancelled or expired.

(l) Impairment of financial instruments

At each reporting date, the Company assesses financial assets not carried at FVTPL to determine whether there is objective evidence of impairment. If such impairment exists, the Company recognizes an impairment loss as follows:

i. *Financial assets carried at amortized cost*

The amount of the impairment is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive loss.

(m) Flow-through Common Shares

Canadian tax legislation permits the Company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors of the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. When flow-through shares are issued, a liability is recognized in the amount of the premium paid for flow-through shares and is calculated as the excess over market value of the shares without the flow-through feature at the time of issuance. This liability is reversed at the time of renouncing the resource expenditures to investors and a deferred tax liability is then recognized through the statement of comprehensive loss.

2. Significant Accounting Policies *(continued)*

(n) Significant Accounting Judgments

Significant judgment is required to determine the total provision for current and deferred taxes. The Company recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

(o) Significant Accounting Estimates and Assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions based on current available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Company's accounting policies, management has made the following estimates and assumptions which have a significant effect on the amounts recognized in the financial statements:

(i) Asset Retirement Obligations

Asset retirement obligation costs will be incurred by the Company at the end of the operating life of certain of the Company's facilities and properties. The ultimate asset retirement obligation costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites.

The expected timing and amount of expenditure can also change, for example, in response to changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

The asset retirement obligations have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual asset retirement obligations will ultimately depend upon future market prices for the necessary retirement works required which will reflect market conditions at the relevant time.

2. Significant Accounting Policies *(continued)*

(o) Significant Accounting Estimates and Assumptions *(continued)*

(ii) Income Taxes

The Company follows the liability method for calculating deferred taxes. Differences between the amounts reported in the financial statements of the Company and its subsidiaries and their respective tax bases are applied to tax rates in effect to calculate the deferred tax liability. In addition, the Company recognizes the future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the statement of financial position date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(iii) Share-Based Compensation

The Company uses the fair value method of valuing compensation expense associated with the Company's share-based compensation plan whereby notional shares are granted to employees, board of directors and key consultants. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. The assumptions are discussed in note 8.

(iv) Warrant Valuation

The Company uses the fair value method of valuing warrants associated with the Company's equity instrument issuances. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. The assumptions are discussed in note 8.

(v) Depreciation

The amounts recorded for depreciation are based on estimates including economic life of the asset and residual values of the asset at the end of its economic life. The actual lives of the assets and residual values are assessed annually taking into account factors such as technological innovation and maintenance programs.

(vi) Recoverability of Assets

The Company assesses impairment on its assets that are subject to amortization when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. In determining fair value less costs to sell and its value in use, the amounts are sensitive to current market prices on comparable assets, commodity prices, and estimated costs to develop and produce.

2. Significant Accounting Policies *(continued)*

(p) Accounting Standards, Interpretations and Amendments to Existing Standards That Are Not Yet Effective

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for annual periods beginning on or after July 1, 2012 or later. These include:

(i) IFRS 7, Financial Instruments, Disclosure – in December 2011, the International Accounting Standards Board (IASB) issued final amendments to the disclosure requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for annual periods beginning on or after January 1, 2013.

(ii) IFRS 9, Financial Instruments, Classifications and Measurement – in November 2009, the IASB issued IFRS 9 to address the classification and measurement of financial assets. In October 2010, the IASB revised the standard to include financial liabilities. The standard is required to be adopted for annual periods beginning on or after January 1, 2015. Portions of the standard remain in de*velopment a*nd the full impact of the standard will not be known until the project is complete.

(iii) IFRS 13 Fair Value Measurement – in May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for annual periods beginning on or after January 1, 2013.

(iv) IAS 1 Presentation of Items of Other Comprehensive Income – in June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to separate items of other comprehensive income between those that are reclassed to income and those that are not. The standard is required to be adopted for annual periods beginning on or after July 1, 2012.

(v) IAS 32 Financial Instruments: Presentation – In December 2011, the IASB issued amendments to address inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The standard is required to be adopted retrospectively for annual periods beginning on or after January 1, 2013.

(vi) IAS 34 Interim Financial Statements - The amendment to IAS 34, issued in August 2012, clarify the requirements on segment information for total assets and total liabilities for each reportable segment. The amendment is effective for annual periods beginning on or after January 1, 2013.

The Company does not anticipate the adoption of these standards and interpretations will have a material impact on the financial statements.

(all amounts are expressed in Canadian dollars)

3. Property and Equipment

	Software & Office Equipment	Buildings	Total
Cost			
Balance, January 1, 2012	$ 6,020	$ 63,360	$ 69,380
Additions	4,206	12,834	17,040
Disposition of assets	(861)	-	(861)
Balance, December 31, 2012	$ 9,365	$ 76,194	$ 85,559
Accumulated Depreciation			
Balance, January 1, 2012	$ 1,274	$ 1,267	$ 2,541
Depreciation	1,949	2,742	4,691
Disposition of assets	(271)	-	(271)
Balance, December 31, 2012	$ 2,952	$ 4,009	$ 6,961
Net Book Value December 31, 2012	$ 6,413	$ 72,185	$ 78,598

During the year ended December 31, 2012, the Company disposed of office equipment for proceeds of $590 which was the net book value of the equipment at the time.

	Software & Office Equipment	Buildings	Total
Cost			
Balance, January 1, 2011	$ 861	$ -	$ 861
Additions	5,159	63,360	68,519
Balance, December 31, 2011	$ 6,020	$ 63,360	$ 69,380
Accumulated Depreciation			
Balance, January 1, 2011	$ 345	$ -	$ 345
Depreciation	929	1,267	2,196
Balance, December 31, 2011	$ 1,274	$ 1,267	$ 2,541
Net Book Value December 31, 2011	$ 4,746	$ 62,093	$ 66,839

(all amounts are expressed in Canadian dollars)

4. Exploration and Evaluation Costs

Cost		
Balance, January 1, 2012	$	3,322,145
Additions		1,221,214
Balance, December 31, 2012	$	4,543,359

Cost		
Balance, January 1, 2011	$	1,942,983
Additions		1,379,162
Balance, December 31, 2011	$	3,322,145

5. Reclamation Bond

For the years ending December 31,		2012		2011
Guaranteed investment certificate bearing interest at 1.20% maturing May 29, 2013.	$	20,000	$	-
Guaranteed investment certificate bearing interest at 0.80% maturing August 28, 2013.		7,000		-
Guaranteed investment certificate bearing interest at 0.80% maturing August 28, 2012.		-		7,000
	$	27,000	$	7,000

The fair value of these investments is equivalent to the carrying value. These investments are held by a bank as a deposit for the reclamation of the exploration property and will be refunded upon completion of the reclamation process.

6. Related Party Transactions

During 2012, IPH Developments Inc., a privately held company owned by a director of the Company, provided exploration, mining and management services amounting to nil (2011 - $91,665). Of this amount nil (2011 - nil) was due to the related party at the end of the reporting period. These amounts have been recorded in exploration and evaluation costs.

During 2012, Robert S. Didur, Mining Consultant, a former director, provided consulting services amounting to nil (2011 - $12,571) up to the date of resignation. Of this amount nil (2011 - nil) was due to the related party at the end of the reporting period. These amounts have been recorded in exploration and evaluation costs.

During 2012, Daryn Gordon Professional Corporation, a privately held company owned by a senior officer of the Company, provided consulting services amounting to $60,000 (2011 - $60,000). Of this amount $5,000 (2011 - $5,000) was due to the related party at the end of the reporting period. These amounts have been recorded in consulting fees.

(all amounts are expressed in Canadian dollars)

6. Related Party Transactions (*continued)*

The terms and conditions of the transactions with IPH Developments Inc., Robert S. Didur, and Daryn Gordon Professional Corporation were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

Key management personnel compensation:

For the years ending December 31,		2012		2011
Management salary	$	166,250	$	150,000
Share-based compensation		30,386		328,358
Total compensation	$	196,636	$	478,358

7. Decommissioning Liability

The Company's asset retirement obligations are based on its net ownership in exploration and evaluation assets and represents management's estimate of the costs to abandon and reclaim those assets as well as an estimate of the future timing of the costs to be incurred. Estimated cash flows have been discounted at the risk free rate of 2.36% and an inflation rate of 2.0% have been estimated for future years.

The total undiscounted amount of future cash flows required to settle the asset retirement obligation is estimated to be $35,000 (2011 - $7,000) and are expected to be incurred twenty-five years from the date of these financial statements.

As at December 31,		2012		2011
Balance, January 1,	$	1,565	$	1,164
Accretion expense		140		162
Change in estimate		31,026		239
Balance, December 31	$	32,731	$	1,565

(all amounts are expressed in Canadian dollars)

8. Share Capital and Reserves

(a) Authorized Share Capital

The Company has authorized an unlimited number of common shares without nominal or par value. The Company has 1,456,920 shares held in escrow by the TSX Venture exchange under National Policy 46-201 Escrow for Initial Public Offerings. On June 21, 2013, 728,460 shares will be released and the remaining shares will be released on December 21, 2013.

(b) Issued:

Share capital:

	Number	Share Capital
Common shares		
Balance, January 1, 2011	28,704,301	$ 3,417,032
Private placement offering - flow-through (ii)	1,756,297	383,964
Private placement offering – common (iii)	4,660,000	1,018,964
Share issue costs	-	(88,675)
Balance, December 31, 2011	35,120,598	4,731,285
Private placement offering - flow-through (i)	3,522,500	47,702
Share issue costs	-	(1,045)
Balance, December 31, 2012	38,643,098	$ 4,777,942

i. In 2012, the Company closed a private placement offering of 3,522,500 flow-through units for gross proceeds of $422,700. At December 31, 2012, $12,000 had not yet been received. Each unit consisted of one flow-through common share and one purchase warrant to purchase one common share at $0.20 expiring eighteen months from the date of issuance. The Company has recognized a premium liability of $176,125 from these flow-through units issued.

ii. In 2011, the Company closed a private placement offering of 1,756,297 flow-through units for gross proceeds of $526,889. Each unit consisted of one flow-through common share and one-half purchase warrant to purchase one common share at $0.50 expiring eighteen months from the date of issuance. The Company has recognized a premium liability of $87,815 from these flow-through units issued.

iii. In 2011, the Company closed a private placement offering of 4,660,000 common share units at $0.25 for gross proceeds of $1,165,000. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant consisting of two half common share purchase warrants entitles the holder to purchase one common share at $0.50 expiring eighteen months from the date of issuance.

(all amounts are expressed in Canadian dollars)

8. Share Capital and Reserves *(continued)*

(c) Warrants

Warrants issued and outstanding at December 31, 2012 are as follows:

	Number	Warrant	Average Exercise Price	Weighted Average Remaining Life
Balance, January 1, 2012	19,975,870	$ 2,174,367	$ 0.40	0.94
Private placement offering – flow-through (note 8 (b)(i))	3,522,500	186,873	$ 0.20	2.00
Private placement offering – broker warrants	17,500	1,045	$ 0.20	2.00
Expiry of warrants	(11,300,286)	(993,501)	$ 0.50	-
Balance, December 31, 2012	12,215,584	$ 1,368,784	$ 0.25	1.85

Details of the warrants outstanding at December 31, 2012 are as follows:

Exercise Price	**Outstanding Number of Warrants**	**Weighted Average Remaining Life**
$ 0.20	3,540,000	2.00
$ 0.25	4,138,000	1.77
$ 0.30	2,401,100	1.64
$ 0.50	2,136,484	2.00
	12,215,584	1.85

Warrants issued and outstanding at December 31, 2011 are as follows:

	Number	Warrant	Average Exercise Price	Weighted Average Remaining Life
Balance, January 1, 2011	16,379,129	$1,949,028	$ 0.38	2.00
Private placement offering – flow-through	878,149	$ 55,110	$ 0.50	0.66
Private placement offering – common	2,330,000	$ 146,036	$ 0.50	0.67
Private placement offering – broker warrants	388,592	$ 24,193	$ 0.50	0.67
Balance, December 31, 2011	19,975,870	$2,174,367	$ 0.40	0.94

(all amounts are expressed in Canadian dollars)

8. Share Capital and Reserves *(continued)*

Details of the warrants outstanding at December 31, 2011 are as follows:

Exercise Price	Outstanding Number of Warrants	Weighted Average Remaining Life
$ 0.25	5,345,524	1.00
$ 0.30	2,401,100	1.00
$ 0.50	12,229,245	0.90
	19,975,869	0.94

During 2012, the Company, in conjunction with the brokered private placements of units and flow-through shares described in notes 8(b)(i) issued 17,500 (2011 – 388,592) broker warrants. These broker warrants expire December 31, 2014 and entitle the holder to acquire one common share at an average exercise price of $0.20 per share. At the time of issuance, the average fair value of the broker warrants was estimated to be $1,045 (2011 - $24,193) and has been recognized as share issuance costs.

During 2012, the Company modified the expiry date on 4,138,000 share purchase warrants with an exercise price of $0.25 to December 29, 2013. The Company also modified the expiry date on 2,401,100 share purchase warrants with and exercise price of $0.30, and 2,136,484 share purchase warrants with and exercise price of $0.50 to December 31, 2014.

The warrants were valued using the Black-Scholes option pricing model using the weighted average assumptions to estimate the fair value as follows:

As at December 31	2012	2011
Risk-free interest rate	1.16%	1.66%
Expected life	2.0 years	1.5 years
Expected volatility	194%	95%
Grant date share price	$ 0.07	$ 0.25 – 0.30
Expected dividend yield	0%	0%

(d) Share purchase options

The Company has a share purchase option plan under which employees, directors and key consultants and/or advisors are eligible to be granted options. Under the share option plan, which was approved by the shareholders, the granted share options vest to the grantee over one year and the grantee has the right to exercise those share options for five years from the date of the granting and typically terminate 90 days following the termination of the optionee's employment or engagement. The maximum number of outstanding share options under the plan is limited to 20% of the number of common shares outstanding. The number of share options and the exercise price is set by the Company’s Board of Directors based on the market value at the time of granting.

(all amounts are expressed in Canadian dollars)

8. Share Capital and Reserves *(continued)*

(d) Share purchase options *(continued)*

Share options issued and outstanding at December 31, 2012 are as follows:

	Number		Weighted Average Exercise Price
Balance, January 1, 2012	3,217,220	$	0.25
Granted	1,990,000		0.10
Forfeited	(62,000)		(0.25)
Balance, December 31, 2012	5,145,220	$	0.19

Details of the share options outstanding at December 31, 2012 are as follows:

Exercise Price	Outstanding Number of Options	Exercisable Number of Options	Weighted Average Remaining Life
$ 0.10	1,990,000	497,500	4.59
$ 0.25	3,155,220	3,155,220	3.24

Share options issued and outstanding at December 31, 2011 are as follows:

	Number		Weighted Average Exercise Price
Balance, January 1, 2011	1,720,220	$	0.25
Granted	2,272,000		0.25
Forfeited	(775,000)		(0.25)
Balance, December 31, 2011	3,217,220	$	0.25

Details of the share options outstanding at December 31, 2011 are as follows:

Exercise Price	Outstanding Number of Options	Exercisable Number of Options	Weighted Average Remaining Life
$ 0.25	3,217,220	3,189,470	4.24

During 2012, the Company granted 1,990,000 (2011 – 2,272,000) share purchase options to purchase common shares at an average exercise price of $0.10 (2011 - $0.25) per common share.

The weighted average fair value of the share purchase options granted during the period is $0.06 (2011 – $0.15). Options were priced using the Black-Scholes option pricing model using the weighted average assumptions to estimate the fair value of options granted:

(all amounts are expressed in Canadian dollars)

8. Share Capital and Reserves *(continued)*

	2012	2011
Risk-free interest rate	1.22%	1.72%
Expected life	5.00 years	4.24 years
Expected volatility	183%	90%
Weighted average grant date share price	$ 0.07	$ 0.25
Expected dividend yield	0%	0%

(e) Contributed surplus

Balance, January 1, 2011	$ 280,643
Share-based compensation expense	336,522
Balance, December 31, 2011	617,165
Share-based compensation expense	47,743
Expiry of warrants	993,501
Balance, December 31, 2012	$ 1,658,409

(f) Loss per share

Basic loss per share amounts are calculated by dividing the total comprehensive loss for the year attributable to the shareholders of the Company by the weighted average number of common shares outstanding during the year.

The Company's dilutive instruments consist of share purchase options and warrants.

The basic and diluted loss per share amounts are the same as the share purchase options and warrants were excluded from the dilution calculation, as they were anti-dilutive.

The weighted average number of shares outstanding for purposes of calculating basic loss per share at December 31, 2012 was 35,784,676 (2011 – 34,033,515).

9. Income Tax

Income tax expense varies from the amount that would be computed by applying the expected basic federal and provincial income tax rates for Canada at December 31, 2012 at 25.00% (2011 – 26.50%) to income before income taxes.

A reconciliation of the differences is as follows:

For the year ended December 31	2012	2011
Income before taxes	$ (371,809)	$ (831,838)
Computed income taxes	(92,952)	(220,437)
Increase (decrease) in taxes:		
Share issue costs	(261)	-
Non-deductible expenses	12,962	93,588
Differences in tax rates	-	7,180
Prior estimate adjustment	20,728	(21,338)
Renouncement on flow-through shares	131,722	438,073
Premium on issuance of flow-through shares	(87,815)	(292,050)
	$ (15,616)	$ 5,015

(all amounts are expressed in Canadian dollars)

9. Income Tax *(continued)*

Deferred tax asset (liability)	2012	2011
Non-capital losses	$ 308,729	$ 228,569
Share issue costs	46,003	66,316
Net deferred tax asset	354,731	294,085
Exploration and evaluation costs	(745,893)	(613,847)
Net deferred tax liability	$ (391,162)	$ (318,963)

A summary of the gross tax balances in which a deferred tax asset was recognized is as follows:

Expiry	Non-capital losses	CCA and Resource pools	Other
Within one year	$ -	$ -	$ 82,298
Two to five years	-	-	101,712
After five years	1,234,915	-	-
No expiry date	-	1,589,664	15,989
	$ 1,234,915	$ 1,589,664	$ 199,999

At December 31, 2012, the Company had losses of $1,234,915 (2011 - $914,275) for income tax purposes, expiring in various years ranging from 2028 to 2032. The Company also has $1,589,664 (2011 - $498,312) of resource tax pools available, which can be carried forward and utilized to reduce current taxes related to certain resource income. During 2012, the Company renounced $526,889 (2011 - $1,752,300) of its resource pools to its shareholders. Deferred tax expense has been reduced by the premium charged on the issuance of the flow-through shares of $87,815 (2011 –$292,050).

10. Financial Instruments and Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit and Risk Management Committee, which is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The committee reports regularly to the Board of Directors on its activities.

(a) Credit risk

Credit risk arises from the possibility that a counterparty to which the Company provides goods or services is unable or unwilling to fulfill their obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and cash equivalents. The Company limits its exposure to credit risk by dealing with well rated entities. No amounts are past due.

(b) 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's approach to managing liquidity is through regular monitoring of cash requirements by preparing short-term and long-term cash flow analysis. When necessary, the Company obtains financing from various investors to ensure all future obligations are fulfilled.

10. Financial Instruments and Risk Management (*continued)*

(b) Liquidity risk *(continued)*

The Company does not have any contractual obligations other than the trade accounts payable and accrued liabilities reported on the statement of financial position.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of market price changes: foreign currency exchange rates, interest rates and commodity prices.

(i) Foreign currency exchange risk

The Company is not exposed to foreign currency exchange rate fluctuations as the Company conducts all of its business in Canada.

(ii) Interest rate risk

Interest rate risk is the risk of change in the borrowing or lending rates of the Company. The Company does not have any exposure to changes in borrowing interest rates and is therefore not exposed to this risk. If the Company's lending rate changes by 1%, and all other variables were held constant, the Company's comprehensive loss would change by approximately $16,000 higher or lower for the year ended December 31, 2012 (2011 - $25,000).

(iii) Commodity price risk

Commodity price risk is the risk of price volatility of commodity prices, such as mineral prices. Currently the Company does not have commercial operations and is therefore not exposed to this risk. Commodity prices generally fluctuate beyond the control of the Company. Factors which contribute to the fluctuation are, but not limited to, demand, forward sales, worldwide production, speculative hedging activities, and bank lending rates.

(d) Fair value of financial instruments

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument. The carrying value of GST receivable, interest receivable and trade accounts payable and accrued liabilities approximates fair value due to the short-term nature.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (adjusted) in the active market for identical assets or liabilities. Cash and cash equivalents are measured using Level 1 inputs.

10. Financial Instruments and Risk Management (*continued)*

(d) Fair Value of Financial Instruments *(continued)*

- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

11. Capital Management

The Company manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt, are analyzed by management and approved by the Board of Directors.

The Company's objectives when managing capital are:

(a) to safeguard the Company's ability to continue as a going concern and provide returns for shareholders; and,

(b) to facilitate the development of its core business.

The Company considers the following items capital of the Company:

(a) cash and cash equivalents; and,

(b) shareholders' equity.

The following table represents the capital of the Company:

As at December 31	2012	2011
Cash and cash equivalents	$ 2,026,974	$ 3,127,548
Shareholders' equity	$ 6,162,498	$ 6,236,373

The Company does not have any externally imposed restrictions on its capital.

There have been no changes in the Company's approach to capital management from previous years.

12. Commitments

I. The Company entered into two Net Smelter Royalty Agreements ("NSR") on May 16, 2008 with one director and two former directors of the Company. Each NSR requires the Company to pay a 3% royalty on the gross value of all products shipped from the lease to a third party smelter less allowable expenses. If the minerals are shipped to a party other than a smelter, the royalty is decreased to 2% of the value of the recoverable metals and minerals determined by third party testing.

II. As at December 31, 2012, of the $422,700 raised through flow-through shares, the Company is committed to spend $341,000 in flow through expenditures in 2013.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.