ATAC Resources Ltd.

Consolidated Financial Statements

December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
ATAC Resources Ltd.

We have audited the accompanying consolidated financial statements of ATAC Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of comprehensive loss, changes in shareholders' equity 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 ATAC Resources Ltd. 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.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

February 28, 2013

NEXIA INTERNATIONAL

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ATAC Resources Ltd.

Consolidated Statements of Financial Position

	Note	**December 31, 2012 $**	December 31, 2011 $
Assets			
Current assets			
Cash and cash equivalents	3	14,862,143	18,235,574
Receivables and prepayments	4	224,665	2,227,716
Marketable securities	5	175,428	318,505
		15,262,236	20,781,795
Non-current assets			
Marketable securities	5	1	2
Joint exploration deposit	7	-	12,485
Prepaid exploration deposits	11	58,727	605,000
Mineral property interests	8	77,592,779	54,536,134
		77,651,507	55,153,621
Total assets		**92,913,743**	75,935,416
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		114,867	119,424
Accounts payable to related parties	11	405,645	292,940
Due to joint exploration partner	8(3)	75,560	-
Flow-through share premium liability	9(d)(e)	210,000	-
		806,072	412,364
Non-current liabilities			
Deferred income tax liability	12	10,788,849	8,021,537
Total liabilities		**11,594,921**	8,433,901
Shareholders' equity			
Share capital	9	94,194,018	77,048,691
Contributed surplus	9	24,131,040	20,756,645
Deficit		(37,006,236)	(30,303,821)
Total shareholders' equity		**81,318,822**	67,501,515
Total liabilities and shareholders' equity		**92,913,743**	75,935,416

Nature of Operations and Going Concern	**1**		
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Approved on behalf of the Board of Directors on February 28, 2013:

“Bruce J. Kenway” **Director** *“Glenn R. Yeadon”* **Director**

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

ATAC Resources Ltd.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2012 and 2011

	Number of shares #	Share capital $	Contributed surplus $	Deficit $	Total shareholders' equity $
January 1, 2011	**91,983,831**	**53,339,084**	**2,380,293**	**(5,475,066)**	**50,244,311**
Share-based payments	-	-	18,292,111	-	18,292,111
Exercise of options	627,500	388,325	-	-	388,325
Re-allocated on exercise of options	-	281,781	(281,781)	-	-
Private placement shares issued	3,333,333	24,999,998	-	-	24,999,998
Premium on flow-through shares issued	-	(1,566,667)	-	-	(1,566,667)
Finders' shares issued	56,250	395,437	-	-	395,437
Finders' warrants issued	-	-	516,406	-	516,406
Share issue costs	-	(1,475,062)	-	-	(1,475,062)
Exercise of warrants	528,122	535,411	-	-	535,411
Re-allocated on exercise of finders' warrants	-	150,384	(150,384)	-	-
Comprehensive loss	-	-	-	(24,828,755)	(24,828,755)
December 31, 2011	**96,529,036**	**77,048,691**	**20,756,645**	**(30,303,821)**	**67,501,515**
January 1, 2012	**96,529,036**	**77,048,691**	**20,756,645**	**(30,303,821)**	**67,501,515**
Share-based payments	-	-	5,217,349	-	5,217,349
Exercise of options	660,000	234,600	-	-	234,600
Re-allocated on forfeiture of options	-	-	(790,192)	766,192	(24,000)
Re-allocated on exercise of options	-	182,966	(182,966)	-	-
Private placement shares issued	5,867,000	17,711,995	-	-	17,711,995
Premium on flow-through shares issued	-	(2,001,045)	-	-	(2,001,045)
Share issue costs	-	(885,435)	-	-	(885,435)
Shares issued for mineral property interests	75,000	188,250	-	-	188,250
Exercise of finders' warrants	422,100	844,200	-	-	844,200
Re-allocated on exercise of finders' warrants	-	350,896	(350,896)	-	-
Re-allocated on expiry of finders' warrants	-	518,900	(518,900)	-	-
Comprehensive loss	-	-	-	(7,468,607)	(7,468,607)
December 31, 2012	**103,553,136**	**94,194,018**	**24,131,040**	**(37,006,236)**	**81,318,822**

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

ATAC Resources Ltd.

Consolidated Statements of Comprehensive Loss

For the years ended December 31,	Note	2012 $	2011 $
Expenses			
Accounting, audit and legal	11	160,885	189,125
Consulting fees	11	169,500	176,750
Investor relations	11	355,343	633,698
Office and administration	11	660,015	479,649
Property examination costs		275	-
Share-based payments	9	5,193,349	18,292,111
Net loss from operating expenses		**(6,539,367)**	(19,771,333)
Interest income		**255,860**	457,786
Loss on marketable securities	5	**(238,688)**	(321,502)
Gain on option of mineral property interests	8	**325,000**	110,454
Loss before income taxes		**(6,197,195)**	(19,524,595)
Deferred income tax expense	12	**(1,271,412)**	(5,304,160)
Comprehensive loss for the year		**(7,468,607)**	(24,828,755)
Loss per share			
Weighted average number of common shares outstanding			
- basic #	**10**	**99,500,865**	95,590,415
- diluted #	**10**	**99,500,865**	95,590,415
Basic loss per share $	**10**	**(0.08)**	(0.26)
Diluted loss per share $	**10**	**(0.08)**	(0.26)

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

ATAC Resources Ltd.

Consolidated Statements of Cash Flows

For the years ended December 31,	Note	2012 $	2011 $
Operating activities			
Comprehensive loss for the year		(7,468,607)	(24,828,755)
Adjustments for:			
Gain on option of mineral property interests		(325,000)	(110,454)
Share-based payments		5,193,349	18,292,111
Loss on marketable securities		238,688	321,502
Interest income		(255,860)	(457,786)
Deferred income tax expense		1,271,412	5,304,160
		(1,346,018)	(1,479,222)
Net change in non-cash working capital items	13	2,035,703	(2,085,088)
		689,685	(3,564,310)
Financing activities			
Issue of common shares for cash		18,790,795	26,300,383
Share issue costs		(1,180,580)	(886,570)
		17,610,215	25,413,813
Investing activities			
Interest received		255,860	457,786
Joint exploration advances		25,036	(7,712)
Proceeds from sale of marketable securities		76,790	193,314
Mineral property option proceeds received		215,000	90,000
Mineral property acquisition costs		(229,024)	(415,796)
Prepaid exploration deposits		(58,727)	(605,000)
Deferred exploration and evaluation expenditures		(21,958,266)	(29,765,334)
		(21,673,331)	(30,052,742)
Decrease in cash and cash equivalents		**(3,373,431)**	(8,203,239)
Cash and cash equivalents, beginning of year		**18,235,574**	26,438,813
Cash and cash equivalents, end of year		**14,862,143**	18,235,574

Supplemental cash flow information 13

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

1. Nature of operations and going concern

ATAC Resources Ltd. (the "Company" or "ATAC") is incorporated under the laws of the Province of British Columbia, Canada. Head office is located at 1016 - 510 West Hastings Street, Vancouver, British Columbia, Canada, V6B 1L8. Its records office is located at 1710 - 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2L3. Its main business activity is the acquisition, exploration and evaluation of mineral property interests located in Canada. The consolidated financial statements of the Company as at and for the years ended December 31, 2012 and 2011 comprise the Company and its subsidiaries, and the Company's interest in jointly controlled operations and entities over which it has significant influence. Its common shares trade on the TSX Venture Exchange ("TSX-V").

The Company is in the process of exploring its mineral property interests and has not yet determined whether they contain mineral reserves that are economically recoverable. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interests are 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 property interests, obtaining the necessary permits to mine, and on future profitable production or proceeds from the disposition of the mineral property interests.

The consolidated financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. As an exploration stage company, the Company does not have revenues and historically has recurring operating losses. As at December 31, 2012, the Company had working capital of $14,456,164 (December 31, 2011 - $20,369,431) and shareholders' equity of $81,318,822 (December 31, 2011 - $67,501,515). Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year. If the going concern assumption were not appropriate for these consolidated financial statements it would be necessary to restate the Company's assets and liabilities on a liquidation basis.

2. Significant accounting policies

(a) Basis of presentation

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011. These consolidated financial statements have been prepared in accordance with IFRS.

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which are classified as fair value through profit or loss ("FVTPL"). In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The accounting policies set out below have been applied consistently by the Company and its subsidiaries and any associates.

All amounts on the consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiaries.

2. Significant accounting policies (continued)

(b) Principles of consolidation

These consolidated financial statements include the financial statements of the Company and all its subsidiaries, and any jointly controlled operations and entities over which it has significant influence.

Subsidiaries are entities controlled by the Company, and are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Company.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. When applicable, the consolidated financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued, except to the extent that the Company has an obligation, or has made payments on behalf of the investee. The Company has no associates requiring equity accounting.

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. When applicable, the consolidated financial statements include the assets that the Company controls and the liabilities that it incurs in the course of pursuing the joint operation and its share of any revenues and expenses from the joint operation.

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment, to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(c) Financial instruments

(i) Non-derivative financial assets

The Company has the following non-derivative financial assets: financial assets at FVTPL and loans and receivables.

A financial asset is classified as FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition material transaction costs are recognized in profit or loss as incurred. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

The Company's marketable securities are classified as FVTPL. Marketable securities held in companies with an active market are classified as current assets at fair value. Marketable securities held in non-public companies without an active market are classified as non-current assets and are valued at fair value. In situations where fair value is indeterminable or impracticable to determine, the shares are recorded at cost. This may occur when non-public company shares are received as payment for mineral property interests. In such situations cost is determined by reference to the issue price of similar shares issued by the non-public entity for cash, at or near the time of issue of the investment shares, and in similar volumes. When, at future measurement dates fair value is still indeterminable, or impracticable, cost is used as the measure of fair value. When there is evidence of impairment the shares are written-down to expected realizable value.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Cash and cash equivalents are classified as FVTPL and are accounted for at fair value. Cash equivalents include highly liquid investments with original maturities of three months or less, and which are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

(ii) Derivative financial assets

Warrants are classified as derivative financial assets and are recorded at FVTPL. Warrants without an active market that are received as attachments to common share units are initially recorded at nominal amounts. At the time of purchase the per unit cost is allocated in full to each common share. Subsequent value is determined at measurement date using a valuation technique, such as the Black-Scholes pricing model, or when the valuation technique input variables are not reliable, using the intrinsic value, which is equal to the higher of the market value of the underlying security, less the exercise price of the warrant, or zero. The Company does not own warrants as at December 31, 2012.

(iii) Non-derivative financial liabilities

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, accounts payable to related parties, and amounts due to joint exploration partners at FVTPL.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(d) Mineral property interests

The acquisition costs of mineral property interests and any subsequent property exploration and evaluation costs are capitalized until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. Exploration and evaluation costs incurred prior to obtaining ownership, or the right to explore a property, are expensed as incurred as property examination costs. Mineral property interests that have close proximity and have the possibility of being developed as a single mine are grouped as projects and are considered separate cash generating units ("CGU") for the purpose of determining future mineral reserves and impairments.

The acquisition costs include the cash consideration paid and the fair market value of any shares issued for mineral property interests being acquired or optioned pursuant to the terms of relevant agreements.

Proceeds received from a partial sale or option of any interest in a property are credited against the carrying value of the property. When the proceeds exceed the carrying costs the excess is recorded in profit or loss in the period the excess is received. When all of the interest in a property is sold, subject only to any retained royalty interests which may exist, the accumulated property costs are written-off, with any gain or loss included in profit or loss in the period the transfer takes place. No initial value is assigned to any retained royalty interest. The royalty interest is subsequently assessed for value by reference to developments on the underlying mineral property.

2. Significant accounting policies (continued)

(d) Mineral property interests (continued)

Management reviews the capitalized costs on its mineral property interests at least annually to consider if there is impairment in value taking into consideration current exploration results and management's assessment of the future probability of profitable operations from the property, or likely gains from the disposition or option of the property. If a mineral property interest is abandoned, or considered to have no future economic potential, the acquisition and deferred exploration and evaluation costs are written-off to profit or loss. If the carrying value of a project exceeds its estimated value, an impairment provision is recorded.

Should a project be put into production, the costs of acquisition, exploration and evaluation will be amortized over the life of the project based on estimated economic reserves.

Exploration costs renounced to shareholders pursuant to flow-through share subscription agreements remain capitalized, however, for income tax purposes the Company has no right to claim these costs as tax deductible expenses.

When entitled, the Company records mineral exploration tax credits or incentive grants on an accrual basis and as a reduction of the carrying value of the mineral property interests.

(e) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, this reversal is recognized in profit or loss.

(ii) Non-financial assets

Non-financial assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the CGU level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent that the carrying amount exceeds the recoverable amount. The Company's mineral property interest impairment policy is more specifically discussed in note 2(d) above.

2. Significant accounting policies (continued)

(f) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Share capital is reduced by the average per-common-share carrying amount, with the difference between this amount and the consideration paid, added to or deducted from contributed surplus.

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 Company considers the fair value of common shares issued in the private placements to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

Common shares, which by agreement are designated as flow-through shares, are usually issued at a premium to non-flow-through common shares. On issue, share capital is increased only by the non-flow-through share equivalent value. Any premium is recorded as a flow-through share premium liability. Pursuant to any flow-through share agreement the Company must renounce its flow-through share exploration expenditures to the flow-through shareholders, and the Company gives up its rights to the income tax benefits on the exploration expenditures. The loss of the tax benefit is recorded as a deferred tax liability and eliminates the original flow-through share premium liability, with the difference, if any, recorded as a deferred income tax expense. In instances where the Company has sufficient deductible temporary differences available to offset the deferred income tax liability created from renouncing the exploration expenditures, the realization of the deductible temporary differences will be shown as a recovery in profit or loss in the period of renunciation.

(g) Share-based payment transactions

The Company has a stock option plan that provides for the granting of options to officers, directors, consultants and related company employees to acquire shares of the Company. The fair value of the options granted is recognized as an expense with a corresponding increase in contributed surplus.

Share-based payments to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Share-based payments to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

Share-based payments are recorded as an operating expense and as contributed surplus. When options are exercised the consideration received is recorded as share capital. In addition, the related share-based payments originally recorded as contributed surplus are transferred to share capital. When an option is cancelled or expires, the initial recorded value is reversed and charged to deficit.

2. Significant accounting policies (continued)

(h) Environmental rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The estimated costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are determined, and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. 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 amortization using either the unit-of-production or the straight line method. The related liability is adjusted at each period-end for the unwinding of the discount rate, for changes to the current market-based discount rate, and for changes to the amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no known restoration, rehabilitation or environmental costs related to its mineral property interests.

(i) Income taxes

Income tax expense is comprised of current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or equity investments.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority for the same taxable entity. A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized.

(j) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by dividing the profit or loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for own shares held and for the effects of all potential dilutive common shares related to outstanding stock options and warrants issued by the Company.

2. Significant accounting policies (continued)

(k) Use of estimates and critical judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates include:

(i) Recorded costs of mineral property interests and deferred exploration and evaluation costs are not intended to reflect present or future values of these properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.

(ii) The determination of the fair value of stock options or warrants using stock pricing models, require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.

(iii) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

(iv) Option or sale agreements, under which the Company may receive shares as payment, require the Company to determine the fair value of the shares received. Many factors can enter into this determination, including, if public shares, the number of shares received, the trading value of the shares, and volume of shares, and if non-public shares, the underlying asset value of the shares, or value of the mineral property interests under option or sale. This determination is highly subjective and does not necessarily provide a reliable single measure of the fair value of the shares received.

(v) Recorded costs of flow-through share premium liabilities reflect the premium received by the Company on the issue of flow-through shares. The premium is subject to measurement uncertainly and requires the Company to assess the value of non-flow through shares. This determination is subjective and does not necessarily provide a reliable single measure of the fair value of the flow-through share premium liability.

(l) New standards not yet adopted

(i) Effective for annual periods beginning on or after January 1, 2013

- New standard IFRS 10 *Consolidated Financial Statements*

  Provides a new single consolidation model that identifies control as the basis for consolidation for all types of entities, and replaces IAS 27 *Consolidated and Separate Financial Statements and* SIC-12 *Consolidation – Special Purpose Entities.*

- New standard IFRS 11 *Joint Arrangements*

  Improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. Such a principles-based approach will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements. IFRS 11 supersedes IAS *31 Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*.

2. Significant accounting policies (continued)

(l) New standards not yet adopted (continued)

(i) Effective for annual periods beginning on or after January 1, 2013 (continued)

- New standard IFRS 12 *Disclosure of Interests in Other Entities*

  Combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

- New standard IFRS 13 *Fair Value Measurement*

  Defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRS require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value.

(ii) Effective for annual periods beginning on or after January 1, 2015

- New standard IFRS 9 *Financial Instruments*

  Partial replacement of IAS 39 *Financial Instruments: Recognition and Measurement*

The Company has initially assessed that there will be no material reporting changes as a result of adopting the new standards, however, there will be enhanced disclosure requirements.

(m) Comparative figures

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

3. Cash and cash equivalents

Cash and cash equivalents consist of the following:	**December 31, 2012 $**	December 31, 2011 $
Bank and broker balances	3,536,230	1,035,616
Cashable term deposits and investment certificates	11,325,913	17,199,958
	14,862,143	18,235,574

4. Receivables and prepayments

Receivables and prepayments consist of the following:	**December 31, 2012 $**	December 31, 2011 $
Sales tax recoverable	139,043	2,138,964
Prepaid expenses	85,622	88,752
	224,665	2,227,716

5. Marketable securities

Marketable securities consist of various common shares received on the option of mineral property interests as follows:

2011	Shares with an active market $	Shares without an active market $	Total $	Total gain (loss) $
Cost				
January 1, 2011	343,273	20,000	363,273	
Additions	219,450	-	219,450	
Proceeds on sale	(193,314)	-	(193,314)	
Realized gain (loss)	96,650	-	96,650	96,650
December 31, 2011	466,059	20,000	486,059	
Fair value				
January 1, 2011	613,870	2	613,872	
Additions	219,450	-	219,450	
Cost of disposals	(96,663)	-	(96,663)	
Unrealized gain (loss)	(418,152)	-	(418,152)	(418,152)
December 31, 2011	318,505	2	318,507	
Total gain (loss)				**(321,502)**

2012	Shares with an active market $	Shares without an active market $	Total $	Total gain (loss) $
Cost				
January 1, 2012	466,059	20,000	486,059	
Reclassified	10,000	(10,000)	-	
Additions	172,400	-	172,400	
Proceeds on sale	(76,790)	-	(76,790)	
Realized gain (loss)	(35,710)	-	(35,710)	(35,710)
December 31, 2012	535,959	10,000	545,959	
Fair value				
January 1, 2012	318,505	2	318,507	
Reclassified	1	(1)	-	
Additions	172,400	-	172,400	
Cost of disposals	(112,500)	-	(112,500)	
Unrealized gain (loss)	(202,978)	-	(202,978)	(202,978)
December 31, 2012	175,428	1	175,429	
Total gain (loss)				**(238,688)**

5. Marketable securities (continued)

The valuation of the shares with an active market has been determined in whole by reference to the bid price of the shares on the TSX-V or Toronto Stock Exchange ("TSX") at each period end date.

The shares without an active market are private company shares received as payment on optioned mineral property interests. The shares were written-down in 2008 to a carrying value of $1 each, as no active market existed or exists, and no value can be determined.

6. Subsidiary information

On July 14, 2010 two wholly-owned subsidiary companies were incorporated under the laws of the Province of British Columbia, Canada to facilitate the possible transfer to them of certain of the Company's mineral property interests. From incorporation to December 31, 2012, neither of the subsidiaries have had any transactions other than to issue nominal $1 share capital to the Company.

7. Joint exploration deposit

Connaught project

Pursuant to a 2009 option agreement (see note 8(2)), the Company sold a one-half interest in its Connaught project to Klondike Silver Corp. ("Klondike") and, thereafter, has jointly explored the project. Effective May 28, 2012 the Company re-acquired the one-half interest for consideration of 75,000 common shares, which were issued at a fair value of $2.51 per share for total consideration of $188,250.

The Company's proportionate share of the joint exploration activities for the years ended December 31, 2012 and 2011 are included in the financial statements as detailed below.

	December 31, 2012 $	December 31, 2011 $
Deposit, beginning of year	12,485	3,961
Net contributions	-	7,712
Exploration/claim cost recovery	12,504	677
Sales tax recovered	-	42
Interest received	47	93
Less: cash received	(25,036)	-
Deposit, end of year	-	12,485

8. Mineral property interests

The Company's mineral property interests consist of various exploration stage properties located in the Yukon Territory, Canada. The properties have been grouped into those which are being sold or optioned to other parties, those which are wholly-owned, and those which are royalty or other interests. Properties which are in close proximity and could be developed as a single economic unit are grouped into projects.

	Under option to others	Wholly-owned	Other interests	Total
	$	$	$	$
January 1, 2011	95,796	24,511,530	199,147	24,806,473
Acquisitions/staking	-	415,796	-	415,796
Exploration and evaluation	-	29,513,064	(203)	29,512,861
Option proceeds	(206,250)	(103,200)	-	(309,450)
Proceeds in excess of cost to profit or loss	110,454	-	-	110,454
December 31, 2011	-	54,337,190	198,944	54,536,134
January 1, 2012	-	54,337,190	198,944	54,536,134
Acquisitions/staking	-	229,024	175,699	404,723
Exploration and evaluation	-	22,636,936	77,386	22,714,322
Option proceeds	(325,000)	(62,400)	-	(387,400)
Proceeds in excess of cost to profit or loss	325,000	-	-	325,000
Reclassified	-	384,565	(384,565)	-
December 31, 2012	**-**	**77,525,315**	**67,464**	**77,592,779**

8. Mineral property interests (continued)

Changes in the project carrying amounts for the years ended December 31, 2012 and 2011 are summarized as follows:

Year ended December 31, 2011

Projects under option to others	January 1, 2011 $	Acquisitions / staking $	Exploration and evaluation $	Option proceeds $	Excess proceeds to profit or (loss) $	December 31, 2011 $
Dawson Gold	39,236	-	-	(127,500)	88,264	-
Idaho Creek	-	-	-	(15,750)	15,750	-
Panorama	56,560	-	-	(63,000)	6,440	-
Total	**95,796**	**-**	**-**	**(206,250)**	**110,454**	**-**
Wholly-owned projects						
Rackla Gold	24,511,530	413,852	29,512,911	(103,200)	-	54,335,093
Rosy	-	1,944	153	-	-	2,097
Total	**24,511,530**	**415,796**	**29,513,064**	**(103,200)**	**-**	**54,337,190**
Other interests						
Connaught	199,147	-	(203)	-	-	198,944
Total all projects	**24,806,473**	**415,796**	**29,512,861**	**(309,450)**	**110,454**	**54,536,134**

Exploration on the projects consisted of the following:

Year ended December 31, 2011	Rackla Gold $	Others $	Total $
Exploration and evaluation costs			
Assays	1,113,590	187	1,113,777
Drilling	6,411,793	-	6,411,793
Field	3,922,550	(373)	3,922,177
Helicopter and fixed wing	8,828,210	-	8,828,210
Labour	6,148,358	136	6,148,494
Surveys	1,146,288	-	1,146,288
Travel and accommodation	1,942,122	-	1,942,122
Total	**29,512,911**	**(50)**	**29,512,861**

8. Mineral property interests (continued)

Year ended December 31, 2012

Projects under option to others	**January 1, 2012** $	**Acquisitions / staking** $	**Exploration and evaluation** $	**Option proceeds** $	**Excess proceeds to profit or (loss)** $	**Re-Classified** $	**December 31, 2012** $
Dawson Gold	-	-	-	(137,500)	137,500	-	-
Idaho Creek	-	-	-	(37,500)	37,500	-	-
Panorama	-	-	-	(150,000)	150,000	-	-
Total	**-**	**-**	**-**	**(325,000)**	**325,000**	**-**	**-**
Wholly-owned projects							
Rackla Gold	54,335,093	229,024	22,636,882	(62,400)	-	-	77,138,599
Rosy	2,097	-	54	-	-	-	2,151
Connaught	-	-	-	-	-	384,565	384,565
Total	**54,337,190**	**229,024**	**22,636,936**	**(62,400)**	**-**	**384,565**	**77,525,315**
Other interests							
Connaught	198,944	175,699	9,922	-	-	(384,565)	-
Dawson Gold	-	-	67,464	-	-	-	67,464
Total	198,944	175,699	77,386	-	-	(384,565)	67,464
Total all projects	**54,536,134**	**404,723**	**22,714,322**	**(387,400)**	**325,000**	**-**	**77,592,779**

Exploration on the projects consisted of the following:

Year ended December 31, 2012	Rackla Gold $	Others $	Total $
Exploration and evaluation costs			
Assays	1,614,089	12,168	1,626,257
Drilling	7,202,230	-	7,202,230
Field	3,067,835	9,762	3,077,597
Helicopter and fixed wing	4,983,651	9,149	4,992,800
Labour	4,246,066	43,184	4,289,250
Surveys	743,356	-	743,356
Travel and accommodation	779,655	3,177	782,832
Total	**22,636,882**	**77,440**	**22,714,322**

8. Mineral property interests (continued)

(1) Projects under option to other parties

Idaho Creek project

The Idaho Creek project consists of a 100% interest in the Idaho mineral claims located in the Whitehorse Mining District, Yukon Territory.

Pursuant to a previous option agreement the Company received shares valued at $132,000.

By Agreement dated January 19, 2010 the Company granted Golden Predator Canada Corp. ("GPCC"), formerly True North Mining Corp., and its parent company Golden Predator Corp. ("Golden Predator"), the right to earn a 100% interest in the Company's Idaho project, for consideration of:

- Cash payments totaling $120,000 as follows:
  - $7,500 upon regulatory acceptance (received);
  - $12,500 on or before June 1, 2010 (received);
  - $15,000 on or before January 19, 2012 (received);
  - $17,500 on or before January 19, 2013 (subsequently received);
  - $20,000 on or before January 19, 2014;
  - $22,500 on or before January 19, 2015; and
  - $25,000 on or before January 19, 2016.
- Issuance to the Company of 150,000 common shares of Golden Predator capital stock as follows:
  - 15,000 shares upon regulatory acceptance (received at $0.59 per share);
  - 22,500 shares on or before January 19, 2011 (received at $0.70 per share);
  - 37,500 shares on or before January 19, 2012 (received at $0.60 per share);
  - 37,500 shares on or before January 19, 2013 (subsequently received); and
  - 37,500 shares on or before January 19, 2014 (with a maximum $100,000 value).

Should GPCC attain a 100% interest in the project the Company would be entitled to a 2% net smelter return royalty ("NSR") from any commercial production. GPCC would have the right at any time to purchase one-half of the NSR for $500,000. In addition, upon commencement of any NSR payments, $100,000 of the above option payments would be considered prepayments.

The project is subject to an area of mutual interest extending one kilometre from the borders of the claims.

Panorama project

The Panorama project consists of a 100% interest in the Aussie mineral claims located in the Dawson Mining District, Yukon Territory.

By Agreement dated January 19, 2010, the Company granted GPCC and Golden Predator, the right to earn a 100% interest in the Company's Panorama project. Under the Agreement the Company has received $140,000 and 300,000 shares of Golden Predator with a total fair value on issue of $188,400.

The Agreement was terminated effective January 3, 2013.

Rackla Gold, Rusty property "T" claims

By Agreement dated April 12, 2011, the Company granted Silver Predator Canada Corp. ("SPCC") and its parent company Silver Predator Corp. ("Silver Predator"), the right to earn a 100% interest in its Rusty property comprised of 73 of the Company's Rackla Gold "T" mineral claims. Under the Agreement the Company has received $80,000 and 160,000 shares of Golden Predator with a total fair value on issue of $85,600.

The Agreement was terminated effective February 18, 2013.

8. Mineral property interests (continued)

(2) Wholly-owned projects

The Company's wholly owned projects are comprised of the rights to explore various mineral claims located in the Yukon Territory, which are at various stages of exploration. They are not subject to any option or sale agreements, except as noted above.

Rackla Gold project

The Rackla Gold project consists of a 100% interest in the Rau (ACX, AT, Rau, GF, PH, Q, R, RR, S, and T mineral claims), Jam, Mouse, Sten (Dale, EN, IS, OS, ST, and Sten mineral claims) and Stoked (HO, Rae and Stoked mineral claims) located in the Mayo Mining District, Yukon Territory. See note 8(1) above for details of an agreement to option 73 of the "T" mineral claims.

Rosy project

The Rosy project consists of a 100% interest in the Rosy mineral claims located in the Whitehorse Mining District, Yukon Territory. Cash and shares totaling $167,000 have been received under previous option agreements.

Connaught project

The Connaught project consists of a 100% interest in the CN and NC mineral claims located in the Dawson Mining District, Yukon Territory. A 50% interest was originally sold to Klondike during the year ended December 31, 2009 for cash and shares totaling $252,500. Subsequent to the sale, the properties were explored on an equal cost-sharing basis (see note 7). Effective May 28, 2012 the 50% interest was re-purchased by issuing Klondike 75,000 common shares at $2.51 per share for total consideration of $188,250, and the joint exploration agreement was terminated.

(3) Other interests

Joint exploration property

Dawson Gold project

The Dawson Gold project consists of a 50% interest in the DM mineral claims located in the Dawson and Whitehorse Mining Districts, Yukon Territory, and the GG, SH and TL mineral claims located in the Dawson Mining District, Yukon Territory.

The other 50% interest was acquired by Arcus Development Group Inc. ("Arcus") under an option Agreement dated June 9, 2009 and completing on February 21, 2012. Under the Agreement the Company received $185,000 and 1,000,000 common shares and Arcus completed a $3,500,000 exploration program.

Effective February 21, 2012 the Company and Arcus agreed to jointly explore the project on a 50/50 basis with Arcus as the Operator. The Company's share of exploration expenditures for the period ended December 31, 2012 amounted to $67,464 and is included as an exploration and evaluation cost under the Dawson Gold project. As at December 31, 2012 the Company owed Arcus $75,560 for its share of the exploration expenditures, which includes sales tax of $8,096.

Royalty interests

The Company has a 1% NSR on the Golden Revenue, Nit, Nitro, and Seymour properties located in the Whitehorse Mining District, Yukon Territory.

9. Share capital

The authorized share capital of the Company consists of unlimited common shares without par value, and unlimited Class “A” preferred shares with a par value of $1.00 each. All issued shares are fully paid.

Transactions for the issue of share capital during the year ended December 31, 2012:

(a) The Company issued 660,000 common shares on the exercise of options for proceeds of $234,600. In addition $182,966 representing the fair value of the options on initial vesting was re-allocated from contributed surplus to share capital.

(b) The Company issued 422,100 common shares on the exercise of finders’ warrants for proceeds of $844,200. In addition, $350,896 representing share issue costs recognized on the original issue of the warrants was re-allocated from contributed surplus to share capital. An additional 169,367 finders’ warrants expired unexercised and share issue costs totaling $518,900 originally charged to share capital and contributed surplus were reversed.

(c) The Company issued 75,000 common shares at $2.51 per share for a total of $188,250 to purchase full ownership in the Connaught project (see note 8(2)).

(d) On July 5, 2012 the Company completed two bought-deal private placements consisting of 886,900 common share units at a price of $2.85 per unit for total consideration of $2,527,665, and 3,980,100 flow-through units at a price of $3.30 per unit for total consideration of $13,134,330. Each common share unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant entitling the holders to purchase one additional common share at a price of $4.50 per share until January 5, 2013. Each flow-through unit consisted of one flow-through share and one-half of one share purchase warrant, with each whole warrant entitling the holders to purchase one additional flow-through share at a price of $4.50 per share until January 5, 2013. Both the common share warrants and the flow-through share warrants can be called for early exercise should the Company’s common shares trade at a weighted average price above $5.00 for ten consecutive days. The premium received on the flow-through shares issued was determined to be $1,791,045 and was recorded as a reduction of share capital. An equivalent flow-through share premium liability was recorded which was reversed when the required exploration expenditures were completed and the amounts had been formally renounced to the flow-through shareholders.

The Underwriters were paid commissions of $936,117 and legal, accounting and filing fees amounted to $228,463. The total share issue costs of $1,164,580, net of deferred tax benefits of $291,145 are shown as a reduction of share capital.

(e) On November 27, 2012, the Company completed a non-brokered private placement consisting of the issue of 1,000,000 flow-through common shares at a price of $2.05 per share for gross proceeds of $2,050,000. The premium received on the flow-through shares issued was determined to be $210,000 and was recorded as a reduction of share capital. An equivalent flow-through share premium liability was recorded which will be reversed when the required exploration expenditures are completed and the amounts have been formally renounced to the flow-through shareholders.

The private placement had no finders’ fees. Legal and filing fees amounted to $16,000 and are shown as a reduction of share capital net of deferred tax benefits of $4,000.

(f) A total of 142,000 options were surrendered and cancelled resulting in the reversal of $790,192 from contributed surplus representing the fair value of the options when granted. Of the total, $766,192 related to options that vested in prior years and this amount has been deducted from deficit. The remaining $24,000 related to options that vested in the current year and this amount has been reversed from current year share-based payments.

9. Share capital (continued)

Transactions for the issue of share capital during the year ended December 31, 2011:

(g) The Company issued 627,500 common shares on the exercise of options for proceeds of $388,325. In addition $281,781 representing the fair value of the options on initial vesting was re-allocated from contributed surplus to share capital.

(h) The Company issued 528,122 shares on the exercise of warrants for proceeds of $535,411. In addition $150,384 representing share issue costs recognized on the original issue of the warrants was re-allocated from contributed surplus to share capital. Of the warrants exercised 347,222 were flow-through warrants and the proceeds of $173,611 were spent on qualified exploration expenditures.

(i) On February 22, 2011, the Company completed a non-brokered private placement consisting of the issue of 3,333,333 flow-through common shares at a price of $7.50 per share for gross proceeds of $24,999,998. The premium received on the flow-through shares issued was determined to be $1,566,667 and was recorded as a reduction of share capital. An equivalent flow-through share premium liability was recorded which was reversed when the required exploration expenditures were completed and the amounts had been formally renounced to the flow-through shareholders.

As consideration for the placement the Company paid finders' fees consisting of cash of $825,874, the issue of 56,250 common shares valued at $395,437, and the granting of 166,367 finders' warrants, which entitled the holders to purchase one additional common share at a price of $7.75 per share until August 22, 2012. The fair value of the finders' warrants was determined to be $516,406 using the Black-Scholes option pricing model, and is included with the cash and shares as a share issue cost. Also included in share issue costs are legal and filing fees of $56,897. The share issue costs are net of deferred tax benefits of $319,552.

Common Share Rights

On June 10, 2010, the shareholders approved a "Rights Plan" under which one Right is issued for each issued and outstanding common share of the Company. Each Right entitles the holder to purchase from the Company one common share at a price equal to one-half the market price for each common share of the Company, subject to certain anti-dilution adjustments. The Rights are exercisable only if the Company receives an unacceptable take-over bid as defined in the Rights Agreement. The Rights Plan was extended at the June 2012 annual shareholders' meeting and will remain in effect until the annual shareholders' meeting in 2014. As at December 31, 2012, there were 103,553,136 Rights outstanding (December 31, 2011 – 96,529,036).

Stock options

The Company has an incentive stock option plan (the "Plan"), which was revised at the June 2012 annual shareholders' meeting to change it from a "fixed number" Plan to 10% "rolling" Plan. Under the "rolling" plan, the maximum number of stock options issued cannot exceed 10% of the Company's currently issued and outstanding common shares. Options granted under the Plan will have a maximum term of ten years. The exercise price of options granted under the Plan will not be less than the "discounted market price" of the common shares (defined as the last closing market price of the Company's common shares immediately preceding the issuance of a news release announcing the granting of the options), or such other price as may be agreed to by the Company and accepted by the TSX-V.

A participant who is not a consultant conducting investor relations activities, who is granted an option under the Plan with exercise prices at or above "Market Price" will have their options vest immediately, unless otherwise determined by the Board of Directors. A participant who is granted an option under the Plan with exercise prices below "Market Price" will become vested with the right to exercise one-sixth of the option upon conclusion of every three months subsequent to the grant date. A participant who is a consultant conducting investor relations activities who is granted options under the Plan will become vested with the right to exercise one-quarter of the options upon conclusion of every three months subsequent to the grant date.

9. Share capital (continued)

Stock options (continued)

A summary of the status of the Company's stock options as at December 31, 2012 and 2011 and changes during the years then ended is as follows:

	Year ended December 31, 2012		Year ended December 31, 2011	
	Options	Weighted average exercise price	Options	Weighted average exercise price
	#	$	#	$
Options outstanding, beginning of year	6,085,000	4.27	3,397,500	0.93
Granted	2,620,000	2.97	3,315,000	7.00
Exercised	(660,000)	0.36	(627,500)	0.62
Cancelled	(142,000)	7.21	-	-
Options outstanding, end of year	**7,903,000**	**4.12**	6,085,000	4.27

As at December 31, 2012, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise price $	Expiry date
730,000	730,000	0.25	May 1, 2014
100,000	100,000	0.43	June 29, 2014
1,100,000	1,100,000	1.40	January 12, 2015
100,000	100,000	1.49	June 16, 2015
3,265,000	3,265,000	7.00	March 11, 2016
100,000	75,000	2.60	January 20, 2017
2,488,000	2,465,500	3.00	March 23, 2017
20,000	-	1.70	December 14, 2017
7,903,000	7,835,500		

** See note 16 for details of subsequent options granted, re-priced and cancelled.

The following table summarizes information about the stock options outstanding at December 31, 2012:

Range of prices $	Options #	Weighted average remaining life years	Weighted average exercise price $
0.25 - 0.43	830,000	1.35	0.27
1.40 - 3.00	3,808,000	3.55	2.48
7.00	3,265,000	3.19	7.00
	7,903,000	3.17	4.12

9. Share capital (continued)

Stock options (continued)

All options granted during the year were to employees or persons providing similar services. The Company has recorded the fair value of all options granted during the year using the Black-Scholes option pricing model. Share-based payment costs were calculated using the following weighted average assumptions: expected life of options - five years (2011 - five years), stock price volatility - 104.36% (2011 - 103.48%), no dividend yield (2011 – none), and a risk-free interest rate yield - 1.57% (2011 - 2.65%). The fair value is particularly impacted by the Company's stock price volatility, determined using data from the previous five years. Using the above assumptions the fair value of options granted during the year ended December 31, 2012 was $2.00 per option (2011 - $5.38 per option). The total share-based payment expense for the year ended December 31, 2012 was $5,217,349 (2011 - $18,292,111), which is presented as an operating expense, and includes only options that vested during the year. The share-based payment expense has been reduced by $24,000 for options that vested during the year, but were subsequently cancelled (2011 – nil).

During the year ended December 31, 2012, a total of 142,000 stock options were surrendered and cancelled. The original fair value of the surrendered options on grant date was $790,192 and on vesting was charged to share-based payment expense and credited to contributed surplus. As a result of the cancellations the $790,192 was removed from contributed surplus and $766,192 was charged to deficit for those options that had vested in prior years. The remaining $24,000 was reversed from current year share-based payment expense for those options that vested in the current year.

Warrants

As an incentive to complete a private placement the Company may issue units which include common shares and common share purchase warrants. Using the residual value method no value was allocated to warrants attached to the units sold in private placements completed. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model.

A summary of the warrants and changes during the years ended December 31, 2012 and 2011 is as follows:

	Year ended December 31, 2012		Year ended December 31, 2011	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of year	630,467	3.76	992,222	1.63
Finders' warrants issued	-	-	166,367	7.75
Issued on private placement	2,433,500	4.50	-	-
Exercised	(422,100)	2.00	(528,122)	1.01
Expired	(169,367)	7.65	-	-
Warrants outstanding, end of year	**2,472,500**	**4.52**	630,467	3.76

As at December 31, 2012 the Company has outstanding warrants, exercisable as follows:

Warrants #	Exercise price $	Expiry date
2,433,500	4.50	January 5, 2013
39,000	6.00	November 8, 2013
2,472,500		

All of the warrants expiring on January 5, 2013 expired unexercised.

9. Share capital (continued)

Warrants (continued)

No finders' warrants were issued during the year ended December 31, 2012. The fair value of the finders' warrants issued during the year ended December 31, 2011 was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of warrants - 1.5 years, stock price volatility - 103.36%, no dividend yield, and a risk-free interest rate yield - 1.58%. The fair value is particularly impacted by the Company's stock price volatility, determined using data from the previous eighteen months. Using the above assumptions the fair value of the finders' warrants issued during the year ended December 31, 2011 was $3.10 per warrant. The fair value of the warrants was determined to be $516,406 and was presented as a share issue cost and as a credit to contributed surplus.

Contributed surplus

Contributed surplus includes the accumulated fair value of stock options recognized as share-based payments and the fair value of finders' warrants issued on private placements. Contributed surplus is increased by the fair value of these items on vesting and is reduced by corresponding amounts when the options or warrants expire, or are exercised or cancelled. Contributed surplus is comprised of the following:

	Options $	Warrants $	Total $
January 1, 2011	1,876,519	503,774	2,380,293
Options vesting/warrants issued	18,292,111	516,406	18,808,517
Options/warrants exercised	(281,781)	(150,384)	(432,165)
December 31, 2011	19,886,849	869,796	20,756,645
January 1, 2012	19,886,849	869,796	20,756,645
Options vesting	5,217,349	-	5,217,349
Options/warrants exercised, expired or cancelled	(973,158)	(869,796)	(1,842,954)
December 31, 2012	**24,131,040**	**-**	**24,131,040**

10. Loss per share

The calculation of basic loss per share for the years ended December 31, 2012 and 2011 was based on the loss attributable to common shareholders of $7,468,607 (2011 - $24,828,755) and a weighted average number of common shares outstanding of 99,500,865 (2011 – 95,590,415).

The calculation of diluted loss per share for the years ended December 31, 2012 and 2011 was based on the loss attributable to common shareholders of $7,468,607 (2011 - $24,828,755), and a weighted average number of common shares outstanding (with no adjustment for the dilutive effects of outstanding options and warrants), of 99,500,865 (2011 – 95,590,415).

At December 31, 2012, 7,903,000 options (2011 – 6,085,000) and 2,472,500 warrants (2011 – 630,467) were excluded from the diluted weighted average number of common shares calculation, as their effect would have been anti-dilutive.

11. Related party payables and transactions

A number of key management personnel and Directors, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. There were no loans to management personnel or Directors, or entities over which they have control or significant influence, for the years ended December 31, 2012 or 2011.

A number of key management personnel and Directors, or their related entities, transacted with the Company in the reporting period. The terms and conditions of these transactions were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions with non-related entities, on an arm's length basis.

Key management personnel and Directors receive no salaries, non-cash benefits (other than incentive stock options), or other remuneration directly from the Company, other than noted below, and there are no employment contracts with them that cannot be terminated without penalty on thirty days advance notice. Key management personnel and Directors participate in the Company's stock option plan. During the year ended December 31, 2012, 1,155,000 stock options (2011 - 1,750,000) were granted to key management personnel and Directors having a fair value on issue of $2,310,000 (2011 - $9,416,208).

The following are the Company's related parties:

(a) Archer, Cathro & Associates (1981) Limited ("Archer Cathro") is a geological consulting firm that is a related party through its management contracts, which confer significant influence over operations. Charges are for property location, acquisition, exploration, management, and office rent and administration. The charges by Archer Cathro also include the services of Graham Downs, who is the Company's CEO, Robert Carne, who is the Company's President, and, prior to April 1, 2012, Ian Talbot, who is the Company's COO. Effective April 1, 2012 the services of Ian Talbot are paid directly to him under a management agreement.

(b) Glenn Yeadon is a Director and the Company's Secretary. He controls Glenn R. Yeadon Personal Law Corporation ("Yeadon Law Corp.") which provides the Company with legal services.

(c) Robert Dinning was the Company's CFO until May 18, 2011. He controls Carlton Energy Inc. which provided consulting services to the Company.

(d) Larry Donaldson became the Company's CFO on May 18, 2011. He is a partner of Donaldson Grassi, Chartered Accountants, a firm in which he has significant influence. Donaldson Grassi provides the Company with accounting and tax services.

(e) Douglas Goss is a Director and the Company's Chairman of the Board. He controls Douglas O. Goss Professional Corporation ("D. Goss Corporation") which provides consulting services to the Company.

The aggregate value of transactions and outstanding balances with key management personnel and Directors and entities over which they have control or significant influence were as follows:

	Transactions year ended December 31, 2012 $	Transactions year ended December 31, 2011 $	**Balances outstanding December 31, 2012 $**	Balances outstanding December 31, 2011 $
Archer, Cathro				
- geological services	6,757,214	8,931,344	293,734	205,663
- rent and administration	484,028	486,363	72,708	63,811
Yeadon Law Corp.	100,465	39,460	21,773	6,666
Carlton Energy Inc.	-	4,750	-	-
Donaldson Grassi	50,475	38,325	14,000	14,000
D. Goss Corporation	52,500	30,000	-	2,800
Ian Talbot	28,962	-	3,430	-
	7,473,644	9,530,242	**405,645**	292,940

11. Related party payables and transactions (continued)

Included in prepaid exploration deposits at December 31, 2012 is $nil (2011 - $605,000) advanced by the Company to Archer, Cathro towards the 2012 exploration program.

All related party balances are unsecured and are due within thirty days without interest.

12. Income taxes

Income tax recovery (expense) varies from the amount that would be computed from applying the combined federal and provincial income tax rate to loss before income taxes as follows:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $
Loss before income taxes	(6,197,195)	(19,524,595)
Statutory Canadian corporate tax rate	25.0%	26.5%
Anticipated income tax recovery	1,549,299	5,174,018
Change in tax resulting from:		
Effect of income tax rate change	-	(8,912)
Unrecognized items for tax purposes	(1,328,173)	(4,902,814)
Tax benefits on flow-through expenditures renounced	(1,492,538)	(5,566,452)
Net deferred income tax expense	**(1,271,412)**	(5,304,160)

The significant components of the Company's deferred income tax liability are as follows:

	December 31, 2012 $	December 31, 2011 $
Unrealized losses on marketable securities	46,316	20,944
Mineral property interests	(12,796,887)	(9,431,867)
Non-capital loss carry forwards	1,352,017	870,761
Capital loss carry forwards	37,873	33,410
Share issue costs	571,832	485,215
Net deferred income tax liability	**(10,788,849)**	(8,021,537)

As at December 31, 2012 the Company has non-capital loss carry forwards of approximately $5,408,000, of which $99,000 will expire in 2014, $65,000 in 2015, $7,000 in 2028, $471,000 in 2029, $1,175,000 in 2030, and $3,591,000 thereafter.

As at December 31, 2012 the Company has unused capital losses of $302,987 which have no expiry date and can only be used to reduce future income from capital gains.

At December 31, 2012 the Company has unclaimed resource and other deductions in the amount of $26,405,232 (December 31, 2011 - $16,808,665), which may be deducted against future taxable income.

At December 31, 2012 there are share issue costs totaling $2,287,325 (December 31, 2011 - $1,940,861), which have not been claimed for income tax purposes.

13. Supplemental cash flow information

Changes in non-cash operating working capital during the years ended December 31, 2012 and 2011 were comprised of the following:

	December 31, 2012 $	December 31, 2011 $
Receivables and prepayments	2,003,051	(1,984,159)
Accounts payable and accrued liabilities	(78)	(9,394)
Accounts payable to related parties	24,634	(91,535)
Sales tax due to joint exploration partner	8,096	-
Net change	**2,035,703**	(2,085,088)

The Company incurred non-cash financing and investing activities during the years ended December 31, 2012 and 2011 as follows:

	December 31, 2012 $	**December 31,** 2011 $
Non-cash financing activities:		
Issue of common shares for finders' fees	-	395,437
Share issue costs paid by issue of common shares	-	(395,437)
Issue of common shares for mineral property interests	188,250	-
Contributed surplus on issue of finders' warrants	-	516,406
Share issue costs paid by issue of finders' warrants	-	(516,406)
Share capital reduced by flow-through share premium	(2,001,045)	-
	(1,812,795)	**-**
Non-cash investing activities:		
Marketable securities acquired on optioned mineral property interests	(172,400)	(219,450)
Mineral property option proceeds received by marketable securities	172,400	219,450
Acquisiton of mineral property interests by issue of common shares	(188,250)	-
Deferred exploration expenditures included in accounts payable, related party payables, and due to joint exploration partner	415,634	264,578
	227,384	264,578

During the years ended December 31, 2012 and 2011 there were no amounts paid on account of interest or income taxes.

14. Financial risk management

Capital management

The Company is a junior exploration company and considers items included in shareholders' equity as capital. The Company has no debt and does not expect to enter into debt financing. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or make special distributions to shareholders. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. The Company's capital structure as at December 31, 2012 is comprised of shareholders' equity of $81,318,822 (December 31, 2011 - $67,501,515).

The Company currently has no source of revenues. In order to fund future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company's ability to continue as a going concern on a long term basis and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation is primarily dependent upon its ability to sell or option its mineral properties and its ability to borrow or raise additional financing from equity markets.

Financial instruments - fair value

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts payable and accrued liabilities, accounts payable to related parties and amounts due to joint exploration partner.

The carrying value of accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments.

Financial instruments measured at fair value on the statement of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $	Level 2 $	Level 3 $	Total $
December 31, 2012				
Cash and cash equivalents	14,862,143	-	-	14,862,143
Marketable securities	175,428	-	1	175,429
	15,037,571	-	1	15,037,572
December 31, 2011				
Cash and cash equivalents	18,235,574	-	-	18,235,574
Marketable securities	318,505	-	2	318,507
	18,554,079	-	2	18,554,081

14. Financial risk management (continued)

Financial instruments - risk

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, and liquidity risk.

(a) Credit risk

The Company is exposed to credit risk by holding cash and cash equivalents. This risk is minimized by holding the funds in Canadian banks and credit unions or with Canadian governments. The Company has minimal accounts receivable exposure, and its various refundable credits are due from Canadian governments.

(b) Interest rate risk

The Company is exposed to interest rate risk because of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations due to the short term to maturity and no penalty cashable feature of its cash equivalents. For the year ended December 31, 2012 every 1% fluctuation in interest rates up or down would have impacted loss for the year, up or down, by approximately $169,000 (2011 - $230,000) before income taxes.

(c) Market risk

The Company is exposed to market risk because of the fluctuating values of its publicly traded marketable securities and other company investments. The Company has no control over these fluctuations and does not hedge its investments. Based on the December 31, 2012 portfolio values every 10% increase or decrease in the share prices of these companies would have impacted loss for the year, up or down, by approximately $17,000 (2011 - $32,000) before income taxes.

(d) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources.

15. Commitments

(a) Flow-through shares

In July 2012, (see note 9(d)), the Company received $13,134,330 from a private placement of flow-through shares. A flow-through share premium liability of $1,791,045 was recorded on the issue. The funds are required to be spent on qualified exploration programs no later than December 31, 2013. All required expenditures were completed during the year and the expenditures have been renounced to the flow-through shareholders. On renouncement the Company gave up its rights to the available income tax benefits. The loss of the benefits has been recorded as a deferred income tax liability with an offsetting reduction of the flow-through share premium liability and recording of a deferred income tax expense.

In November 2012, (see note 9(e)), the Company received $2,050,000 from a private placement of flow-through shares. A flow-through share premium liability of $210,000 was recorded on the issue. The funds are required to be spent on qualified exploration programs no later than December 31, 2013. The Company renounced the expenditures to the flow-through shareholders in February 2013 using the look-back rules allowed by Canadian tax authorities. On renouncement the Company gives up its rights to available income tax benefits. The loss of the benefits will be recorded next year as the flow-through funds are spent and will result in the recording of a deferred income tax liability with an offsetting reduction of the flow-through share premium liability and recording of a deferred income tax expense. Under the look-back rules, effective from March 1, 2013, any unspent flow-through funds will be charged a floating rate interest tax, which is currently set at 1% per annum. As at December 31, 2012, the Company had spent approximately $150,000 of the flow-through funds.

15. Commitments (continued)

(b) Cooperation agreement

Effective August 17, 2010 the Company entered into a three-year renewable exploration cooperation agreement with the Yukon First Nation of Na-Cho Nyak Dun ("NND"). The agreement pertains to the Company's Rackla Gold project exploration activities under which the NND and the Company agree to cooperate with each other to ensure that the on-going exploration of the property is conducted in a mutually beneficial manner. The Company has agreed to pay the NND an annual contribution fee of $100,000 to assist them in reviewing and monitoring the exploration activities. The payments are included in the Rackla Gold project costs. Payments are due on the first of April each year. The current year payment was made on March 13, 2012.

16. Events after the reporting period

On January 29, 2013, the Company granted 2,030,000 incentive stock options to certain Officers, Directors, related company employees, which vest one-quarter every three months at an exercise price of $1.80 each for a period of five years.

It also reduced the exercise price on 1,375,000 incentive stock options that were granted on March 11, 2011 at $7.00 each. The exercise price was reduced to $1.80 per option with no change in the March 11, 2016 expiry date. None of the re-priced options were held by Officers or Directors.

On February 1, 2013, 1,850,000 Officer, Director, and related company employee options, exercisable at $7.00 each, were surrendered and cancelled.