STRATABOUND MINERALS CORP.
FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

BDO

Tel: 403 266 5608
Fax: 403 233 7833
www.bdo.ca

BDO Canada LLP
620, 903 - 8th Avenue SW
Calgary AB T2P 0P7 Canada

Independent Auditor's Report

To the Shareholders of
Stratabound Minerals Corp.

We have audited the accompanying financial statements of Stratabound Minerals Corp., which comprise the statements of financial position as at December 31, 2012 and December 31, 2011 and the statements of operations and comprehensive loss, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

BDO Canada LLP

CHARTERED ACCOUNTANTS

Calgary, Alberta
April 29, 2013

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

STRATABOUND MINERALS CORP.
STATEMENTS OF FINANCIAL POSITION

As at	Dec 31, 2012	Dec 31, 2011
ASSETS		
CURRENT		
Cash	**$ 119,579**	$ 6,432
Investments (Note 6)	**13,730**	53,146
Other receivables (Note 7)	**99,746**	26,142
Prepaid expenses	**3,331**	-
Loan commitment fee (Note 10)	**83,829**	-
	320,215	85,720
NON-CURRENT ASSETS		
Property, plant and equipment (Note 8)	**3,173**	4,248
Mineral exploration and evaluation assets (Note 9)	**7,138,081**	9,011,203
	$ 7,461,469	$ 9,101,171
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 120,765**	$ 94,740
Short-term loan payable (Note 10)	**188,610**	-
Flow-through share premium (Note 11)	**192,975**	80,000
	502,350	174,740
DEFERRED TAXES PAYABLE (Note 12)	**733,635**	674,609
	1,235,985	849,349
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	**15,951,208**	15,416,849
Contributed surplus	**1,463,104**	1,147,873
Accumulated other comprehensive income	**3,750**	46,286
Deficit	**(11,192,578)**	(8,359,186)
	6,225,484	8,251,822
	$ 7,461,469	$ 9,101,171

Approved on behalf of the Board

Director *"Stan Stricker"* Director *"Duncan McCowan"*

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

STRATABOUND MINERALS CORP.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31		**2012**		2011
EXPENSES				
General and administrative (Note 17)	**$**	**239,355**	$	336,993
Stock-based compensation (Note 9 & 14)		**180,786**		44,151
Pre-exploration costs		**2,516**		7,828
Amortization		**1,075**		1,463
LOSS FROM OPERATIONS		**(423,732)**		(390,435)
OTHER INCOME AND EXPENSES				
Interest income		**776**		6,828
Impairment of mineral exploration and evaluation assets (Note 9)		**(549,565)**		(626,328)
Impairment of receivable (Note 9)		**(200,000)**		-
Other income (Note 11)		**80,000**		353,887
Realized gain on disposal of mineral exploration and evaluation assets (Note 9)		**798,004**		-
Realized gain (loss) on disposal of investments (Note 6)		**(283,645)**		29,859
		(154,430)		(235,754)
LOSS BEFORE INCOME TAXES		**(578,162)**		(626,189)
CURRENT INCOME TAX		**(224)**		(25,097)
DEFERRED INCOME TAX (Note 12)		**(59,542)**		(131,564)
		(59,766)		(156,661)
LOSS FOR THE YEAR		**(637,928)**		(782,850)
OTHER COMPREHENSIVE LOSS, NET OF TAX				
Unrealized loss on available-for-sale investments, net of tax (Note 6)		**(19,547)**		(13,113)
TOTAL COMPREHENSIVE LOSS	**$**	**(657,475)**	$	(795,963)
BASIC AND DILUTED LOSS PER SHARE (Note 16)	**$**	**(0.009)**	$	(0.012)
Weighted average number of shares:				
Basic and diluted		**71,070,657**		64,795,864

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

STRATABOUND MINERALS CORP.
STATEMENTS OF CHANGES IN EQUITY

	Number of issued and outstanding shares (Note 14)	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Shareholders' equity
	#	$	$	$	$	$
Balance at January 1, 2012	**65,195,111**	**15,416,849**	**1,147,873**	**46,286**	**(8,359,186)**	**8,251,822**
Private placement – common shares	**4,200,000**	**210,000**	**-**	**-**	**-**	**210,000**
Private placement – flow-through shares	**6,432,500**	**321,625**	**-**	**-**	**-**	**321,625**
Issued for mineral exploration and evaluation assets (Note 9)	**60,000**	**4,200**	**-**	**-**	**-**	**4,200**
Share issuance costs	**-**	**(1,466)**	**-**	**-**	**-**	**(1,466)**
Stock-based compensation (Note 14)	**-**	**-**	**217,431**	**-**	**-**	**217,431**
Warrants issued as commitment fee (Note 10)	**-**	**-**	**97,800**	**-**	**-**	**97,800**
Reclassification from accumulated other comprehensive income on disposal of available-for-sale investments (Note 6)	**-**	**-**	**-**	**(22,989)**	**-**	**(22,989)**
Dividends declared (Note 6)	**-**	**-**	**-**	**-**	**(2,195,464)**	**(2,195,464)**
Total comprehensive loss	**-**	**-**	**-**	**(19,547)**	**(637,928)**	**(657,475)**
Balance at December 31, 2012	**75,887,611**	**15,951,208**	**1,463,104**	**3,750**	**(11,192,578)**	**6,225,484**

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

STRATABOUND MINERALS CORP.

STATEMENTS OF CHANGES IN EQUITY

	Number of issued and outstanding shares (Note 14)	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Shareholders' equity
	#	$	$	$	$	$
Balance at January 1, 2011	62,795,111	14,970,515	1,090,770	59,399	(7,576,336)	8,544,348
Issued for mineral exploration and evaluation assets (Note 9)	275,000	31,250	-	-	-	31,250
Private placement – flow-through shares	2,000,000	420,000	-	-	-	420,000
Share issuance costs	-	(17,416)	-	-	-	(17,416)
Exercise of options	125,000	12,500	-	-	-	12,500
Stock-based compensation (Note 14)	-	-	57,103	-	-	57,103
Total comprehensive loss	-	-	-	(13,113)	(782,850)	(795,963)
Balance at December 31, 2011	65,195,111	15,416,849	1,147,873	46,286	(8,359,186)	8,251,822

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

STRATABOUND MINERALS CORP.
STATEMENTS OF CASH FLOWS

For the years ended December 31	2012	2011
OPERATING ACTIVITIES		
Loss for the year	$ **(637,928)**	$ (795,963)
Items not affecting cash:		
Amortization (Note 8)	**1,075**	1,463
Deferred income taxes (Note 12)	**59,542**	131,564
Stock-based compensation	**180,786**	44,151
Other income (Note 11)	**(80,000)**	(353,887)
Accretion of short-term loan payable (Note 10)	**2,581**	-
Impairment of mineral exploration and evaluation assets (Note 9)	**549,565**	626,328
Impairment of receivable (Note 9)	**200,000**	-
Realized gain on disposal of mineral exploration and evaluation assets (Note 9)	**(798,004)**	-
Realized loss (gain) on disposal of investments (Note 6)	**276,455**	(16,746)
	(245,928)	(363,090)
Change in non-cash working capital items (Note 5)	**(50,908)**	18,419
Net cash used in operating activities	**(296,836)**	(344,671)
INVESTING ACTIVITIES		
Expenditures on mineral exploration and evaluation assets (Note 9)	**(705,234)**	(833,568)
Government incentives received (Note 9)	**67,640**	96,000
Option payment on mineral property (Note 9)	**-**	50,000
Proceeds from disposal of mineral exploration and evaluation assets (Note 9)	**100,000**	-
Proceeds from disposal of available-for-sale investments (Note 6)	**30,350**	35,456
Net cash used in investing activities	**(507,244)**	(652,112)
FINANCING ACTIVITIES		
Proceeds from share issuances (Note 14)	**724,600**	500,000
Proceeds from short-term loan payable (Note 10)	**200,000**	-
Proceeds from exercise of stock options	**-**	12,500
Share issue costs (Note 14)	**(7,373)**	(3,249)
Net cash provided by financing activities	**917,227**	509,251
CHANGE IN CASH	**113,147**	(487,532)
CASH, beginning of year	**6,432**	493,964
CASH, end of year	$ **119,579**	$ 6,432

NON-CASH TRANSACTIONS (Note 9 & 14)

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

1. CORPORATE INFORMATION

Stratabound Minerals Corp. ("the Company") is in the business of exploration and evaluation of mineral properties in Canada. The Company was incorporated under the Canada Business Corporations Act on March 5, 1986, and has continued as a company under the Business Corporations Act of Alberta. The Company is listed on the TSX Venture Exchange, having the symbol TSX.V: SB, as a Tier 1 mining issuer and is in the process of exploring its mineral properties in the provinces of New Brunswick and Quebec.

The business of exploring for mineral resources involves a high degree of risk and there can be no assurance that the Company's exploration programs will result in profitable operations. The Company's ability to repay its short-term loan due June 30, 2013, to meet its obligations arising from exploration and development activity and, to provide working capital for normal operations, is dependent upon the ability of the Company to continue to secure financial support from outside sources as needed; the ability to complete future equity financing; as well as the ability to generate future profitable production; the existence of economically recoverable reserves (note 20); or proceeds from the disposition of its properties.

The address of the Company's registered office is 3700, 400 Third Avenue SW, Calgary, Alberta T2P 4H2.

The financial statements were authorized for issue by the Board of Directors on April 29, 2013.

2. BASIS OF PRESENTATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for certain available-for-sale financial assets, which are carried at fair value, as explained in Note 6.

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash

Cash includes cash on hand and deposits held at call with financial institutions.

b) Loan commitment fee

Loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on any loans drawn down. Loan commitment fees not allocated to loans drawn down are deferred and recognized in profit or loss over the commitment period on a straight line basis. If at the end of the commitment period, the full amount of commitment fee has not been recognized as an adjustment to the effective interest rate on the loan, the remaining deferred portion is recognized in profit or loss.

c) Mineral exploration and evaluation expenditures

i) Pre-exploration costs

Pre-exploration costs are expensed in the year in which they are incurred. Pre-exploration costs are those incurred prior to obtaining the legal right to explore.

ii) Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation ("E&E") expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal. Any gains or losses from the disposal of exploration and evaluation assets are recognized in the statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment

i) Recognition and measurement

On initial recognition, property, plant and equipment are measured at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

iii) Gains and losses

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized on a net basis within other income and expenses in profit or loss.

iv) Depreciation

Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Office equipment	Declining balance at 20%
Furniture and fixtures	Declining balance at 20%
Computer equipment	Declining balance at 30%

e) Impairment of non-financial assets

Non-financial assets, including exploration and evaluation assets and property and equipment are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit ("CGU"). An asset's CGU is the lowest group of assets for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has determined its CGUs on an area by area basis.

An impairment loss is charged to profit or loss.

Management has adopted a policy whereby if it is determined that a property no longer has economic viability (ie: leases or licenses have expired or will expire in the near future without renewal, future expenditures are not planned for the area or the carrying amount of the asset is unlikely to be recovered in full from development or sale), the Company will immediately write off 100% of the costs of the impaired claims.

f) Financial instruments

i) Financial assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

- Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Company classifies its cash and other receivables as loans and receivables.

- Fair value less cost to sell

Financial assets and financial liabilities classified as fair value less cost to sell are either held for trading or designated at fair value less cost to sell and are measured at fair value, with changes in fair value recognized in profit and loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Available-for-sale investments

Non-derivative financial assets not included in the above category are classified as available-for-sale and comprise principally the Company's investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive income is reclassified from accumulated other comprehensive income to profit or loss.

ii) Other financial liabilities

Financial liabilities are classified as other financial liabilities and comprise accounts payable and accrued liabilities and short-term loan payable. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest payable while the liability is outstanding.

Accounts payable and accrued liabilities represent obligations for goods and services provided to the Company prior to the end of the period which are unpaid. All amounts are unsecured and are normally paid within 30 days of recognition.

g) Impairment of financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All impairment losses are recognized in profit or loss. 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, the reversal is recognized in profit or loss.

h) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options, common share purchase warrants and flow-through shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

i) Flow-through shares

The Company's Canadian exploration activities have been financed in part through the issuance of flow-through common shares whereby the tax benefits of the eligible exploration expenditures incurred under this arrangement are renounced to the subscribers. The proceeds from issuing flow-through shares are allocated between the offering of shares and the sale of tax benefits. The allocation is based on the difference ("premium") between the quoted price of the Company's existing shares and the amount the investor pays for the actual flow-through shares. A liability is recognized for the premium ("flow-through share premium"), and is extinguished when the tax effect of the temporary differences, resulting from the renunciation is recorded as deferred tax expense. The tax effect of the renunciation is recorded at the time the Company makes the renunciation provided the funds have been spent on qualifying expenditures, which management has deemed to be the date the Company files the necessary documents with the taxation authorities. If the flow-through shares are not issued at a premium, a liability is not recorded and on renunciation the full value of the tax liability is recorded as a deferred tax expense.

j) Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, any unrecognized expense is immediately recognized. In addition, the incremental fair value of the options, measured as the difference between the fair value immediately before and after the modification, is charged to the statement of comprehensive income over the remaining vesting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive income, unless they are an expense directly related to the issuance of shares. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by reference to the fair value of the equity instruments issued.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount previously recognized in contributed surplus is credited to share capital, along with any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company accounts for the cancellation as an acceleration of vesting and recognizes immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

k) Loss per share

The calculation of basic loss per share is based on loss for the year divided by the weighted average number of common shares outstanding for the year.

Diluted loss per share is equal to basic loss per share as the effect of potentially dilutive options and warrants would be anti-dilutive as the Company is in a loss position.

l) Government incentives

Government incentives received for mineral property expenditures are accrued when there is reasonable assurance of realization and are applied against the related asset.

m) Income taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of income, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

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

Deferred tax is recognized using the balance sheet method, providing for tax on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

n) Accounting standards issued but not yet applied

At the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on the new standards, amendments and interpretations that are expected to be relevant to the Company are provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

i) IFRS 7 – Offsetting financial assets and liabilities

Qualitative and quantitative disclosures have been added to IFRS 7, Financial Instruments: Disclosures, relating to gross and net amounts of recognized financial instruments that are set-off in the statement of financial position and subject to enforceable master netting arrangements and similar agreements, even if not set-off in the statement of financial position. These amendments are effective for annual reporting periods beginning on or after January 1, 2013. The required disclosures should be provided retrospectively. The Company does not anticipate a material impact on its financial statements from these amendments.

ii) IFRS 9 – Financial instruments: Classification and measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost only in such instances that the entity is holding the financial asset to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, the financial asset must be measured at the fair value through the statement of profit or loss. The new standard was also updated to include guidance on the financial liabilities and de-recognition of financial instruments. The new standard is effective for years beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

iii) IFRS 10 – Consolidated financial statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company has yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv) IFRS 11 – Joint arrangements

IFRS 11 requires an entity to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the entity will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31, Interest in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers. The Company has yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

v) IFRS 12 – Disclosures of interests in other entities

IFRS 12 establishes disclosure requirements for interest in other entities, such as joint arrangements, associates, special-purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. The Company has yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

vi) IFRS 13 – Fair value measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company has yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

vii) IAS 28 – Investments in associates

IAS 28 prescribes the accounting for investments in associates and sets out the requirement for the application of the equity method when accounting for investments in associates and joint ventures. The application of this pronouncement is not expected to have a material impact on the Company's financial statements, and the Company intends to adopt this standard no later than the accounting period beginning on January 1, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv) IFRIC 20 – Stripping costs in the production phase of a surface mine

IFRIC 20 sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impacts of this interpretation. The Company intends to adopt this guidance no later than the accounting period beginning on January 1, 2013.

v) Amendments to IAS 1 – Presentation of financial statements

The Amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012 and require entities to group items presented in other comprehensive income into those that, in accordance with other IFRS, will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met. The existing option to present items of OCI either before tax or net of tax remains unchanged; however, if the items are presented before tax, then the amendments to IAS 1 require the tax related to each of the two groups of OCI to be shown separately. The Company does not expect this will change the current presentation of items in OCI.

vi) Transition guidance for IFRS 10, 11, and 12

Subsequent to issuing the new standards, the IASB made some changes to the transitional provisions in IFRS 10, 11 and 12. The guidance confirms that the entity is not required to apply IFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also makes changes to IFRS 11 and 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides additional relief by removing the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied. This guidance is also effective for annual periods beginning on or after January 1, 2013.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in total comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

a) Exploration and evaluation expenditure

Judgments

Management uses judgment in determining whether or not indicators of impairment have been identified for its CGUs. The results of management's assessment could result in an impairment test not being performed when indicators did in fact exist, which could impact the valuation of the CGUs' carrying value.

b) Income taxes

Estimates

Deferred tax assets and liabilities are determined using the tax rates expected to be in effect at the time the assets are realized and liabilities settled. The actual tax rate in effect at that time may vary from the expected tax rates.

Judgments

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may differ materially from the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recovered.

c) Share-based payment transactions

Estimates

The Company measures the cost of equity-settled transactions with directors, officers, employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

This valuation requires the determination of the most appropriate inputs including the expected life of the share option (based on historical times between vesting date and exercise date) and share price volatility (based on historical share price volatility). In addition, the amount recognized is based on the number of equity instruments expected to ultimately vest, which relies on estimates of forfeiture rates which is based on historical evidence of forfeitures. History may not always be indicative of the future and as a result, the value determined has significant estimation uncertainty. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 14. The same estimates are required for transactions with non-employees where the fair value of the goods or services received cannot be reliably determined.

5. SUPPLEMENTAL CASH FLOW INFORMATION

		2012		2011
Changes in non-cash working capital items				
Other receivables	**$**	**(73,604)**	$	49,479
Prepaid expenses		**(3,331)**		-
Accounts payable and accrued liabilities		**26,027**		(31,060)
	$	**(50,908)**	$	18,419

6. INVESTMENTS

a) Available-for-sale investments

Available-for-sale investments consist of investments in common shares of one publicly-traded company. The fair value of the listed available-for-sale investments has been determined directly by reference to published price quotations in an active market. During the year, the Company received cash proceeds of $30,350 (2011 - $35,456) from the disposal of available-for-sale investments and recognized a realized gain of $24,350 (2011 - $29,859). An amount of $22,989 (2011 - $nil) was reclassified from accumulated other comprehensive income and recognized in loss for the year as a result of this disposal.

The Company recognized an unrealized loss from fair value movements during the year of $19,547 (2011 – $13,113), which was recognized in other comprehensive income. There was no impairment of available-for-sale investments for the year ended December 31, 2012 or 2011.

b) Fair value through profit or loss investments

As consideration for the disposal of the Company’s Elmtree property (Note 9), the Company received 10,000,000 shares of a public company valued at $0.25/share. On July 15, 2012, the Company declared a special dividend to distribute a net 9,946,702 (32,680 shares withheld as withholding tax of 15% on distributions to non-residents) of these shares to shareholders of record on that date, resulting in a dividend with a fair value of $2,195,464. The Company recognized a realized loss from fair value movements of $307,995 during the year.

7. OTHER RECEIVABLES

As at	**December 31, 2012**	December 31, 2011
Accounts receivable	**-**	969
Mining tax incentive receivable	**66,517**	20,000
Goods and Services Tax receivable	**33,229**	5,173
	$ 99,746	$ 26,142

8. PROPERTY, PLANT AND EQUIPMENT

	Office equipment	**Furniture and fixtures**	**Computer equipment**	**Total**
Cost				
Balance at December 31, 2011 and December 31, 2012	**$ 7,339**	**$ 15,740**	**$ 24,703**	**$ 47,782**
Accumulated amortization				
Balance at January 1, 2011	$ 5,377	$ 15,204	$ 21,490	$ 42,071
Amortization for the year	392	107	964	1,463
Balance at December 31, 2011	$ 5,769	$ 15,311	$ 22,454	$ 43,534
Amortization for the year	**314**	**86**	**675**	**1,075**
Balance at December 31, 2012	**$ 6,083**	**$ 15,397**	**$ 23,129**	**$ 44,609**
Carrying amounts				
At December 31, 2011	$ 1,570	$ 429	$ 2,249	$ 4,248
At December 31, 2012	**$ 1,256**	**$ 343**	**$ 1,574**	**$ 3,173**

9. MINERAL EXPLORATION AND EVALUATION ASSETS

Balance at January 1, 2011	$ 8,925,761
Acquisition and renewal costs	47,336
Exploration expenditures	817,482
Options issued to exploration consultants	12,952
Property option payment	(50,000)
Provincial government incentives	(116,000)
Impairment	(626,328)
Balance at December 31, 2011	9,011,203
Acquisition and renewal costs	**24,592**
Exploration expenditures	**684,843**
Options issued to exploration consultants	**36,645**
Mineral property disposals	**(2,001,997)**
Provincial government incentives	**(67,640)**
Impairment	**(549,565)**
Balance at December 31, 2012	**$ 7,138,081**

Of the $746,080 (2011 - $877,770) total exploration and evaluation assets capitalized during the year, $4,200 (2011 - $31,250) relates to shares issued for property acquisition, $36,645 (2011 - $12,952) relates to the fair value of options granted to exploration consultants and $29,000 (2011 - $40,000) relates to general and administrative costs directly attributable to the exploration and evaluation of the properties. Total additions to mineral properties were reduced by government incentives received in the amount of $67,640 (2011 - $116,000) and property options received of $nil (2011 - $50,000), resulting in net additions of $678,440 (2011 - $711,770) for the year.

During the year ended December 31, 2012, the Company disposed of its interest in the Elmtree property for consideration comprising cash in the amount of $100,000, a receivable in the amount of $200,000 and 10,000,000 common shares of an arm's length public company valued at $2,500,000 on the date of transfer. This transaction resulted in a gain on disposal of mineral exploration and evaluation assets in the amount of $798,004. Of the total receivable, $100,000 was due to be received by December 22, 2012 and the remaining $100,000 was due to be received by June 22, 2013. Management believes that the full $200,000 is uncollectible and has written off the receivable in full at December 31, 2012.

9. MINERAL EXPLORATION AND EVALUATION ASSETS (CONTINUED)

At year end, indicators of impairment were assessed on an area of interest basis and it was determined that the carrying amount of four of the Company's properties were no longer fully recoverable due to the expiry of the leases without renewal and the decision to discontinue exploration. The Company determined a recoverable amount of $nil for these licenses and as a result, recognized impairment on mineral exploration and evaluation assets of $549,565 (2011 - $626,328).

a) Bathurst, New Brunswick

The Company holds a 100% interest in 6,405 hectares in the Bathurst base metal mining camp in New Brunswick, Canada. The properties include the Captain North Extension ("CNE")/Captain Group, CNE Mining Lease, Nepisiguit Brook, and Taylor Brook claim groups. All are subject to a 1% net smelter return on production, other than Nepisiguit Brook and the portion of the CNE/Captain Group formerly known as Captain East, which are royalty-free. The Company received government incentives toward exploration in the amount of $1,123 during the year. Subsequent to year end, the Company commenced development of a mine. Capitalized costs at year end total $6,317,233.

b) Ramsay Brook, New Brunswick

The Company holds a 100% interest in 69 claims (1,110 hectares) covering gold prospects in Restigouche County, New Brunswick. As no further exploration is planned, the carrying value of this property totaling $398,149 has been written off to impairment of mineral exploration and evaluation assets at year end.

c) Enja, Quebec

The Company has a 100% interest, subject to a 2% net smelter return royalty, in this 47 claim (2,520 hectare) gold and base metal prospect. Subsequent to year end, 5 claims will expire without renewal and the carrying value of these claims has been written off at year end in the amount of $108,596. Remaining costs capitalized at year end total $169,266.

d) Commander Option, New Brunswick

In 2010, the Company entered into an agreement with Commander Resources Ltd. ("Commander") whereby the Company has the option to acquire up to a 65% interest in a 1,049 hectare claim group adjoining the Company's CNE/Captain claim group in New Brunswick.

9. MINERAL EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Under the terms of the agreement, the Company can acquire a 60% interest by issuing to Commander 50,000 common shares on signing at a deemed price of $0.10 per share and spending a minimum of $150,000 on exploration expenditures in year 1; issuing 100,000 common shares to Commander on the first anniversary of the agreement at a deemed price of $0.10 per share and spending a minimum of $200,000 on exploration in year 2; issuing 50,000 common shares to Commander on the second anniversary of the agreement at a deemed price of $0.07 per share and spending a minimum of $300,000 on exploration in year 3; issuing 100,000 common shares to Commander on the third anniversary of the agreement and spending a minimum of $400,000 on exploration in year 4; and issuing 100,000 common shares to Commander on the fourth anniversary of the agreement and spending $450,000 on exploration in year 5. The Company has met the year 1 and 2 requirements by year end by issuing the required common shares and spending $440,066 in exploration expenditures. The five year option term ends on September 30, 2015. The Company paid an additional 10,000 common shares to Commander on August 15, 2012 to extend the year 2 option deadline from July 27, 2012 to September 30, 2012. The Company can earn a further 5% interest by issuing an additional 100,000 shares and spending an additional $1 million on the property. Capitalized costs at year end total $467,286.

e) Gemini Hills, Quebec

The Company has a 75% interest in a gold prospect in the South Gemini Hills area of Berry Township, Quebec, subject to a 1.5% net smelter return on production. The Company can purchase half the royalty at any time for $750,000. The Company has applied for government incentives toward exploration in the amount of $66,517 during the year. Capitalized costs at year end total $139,268.

f) Lamoreaux Corner, Western New Brunswick

The Company has a 100% interest in 93 claims (2,060 hectares) covering gold prospects along a new section of the Trans-Canada Highway near Lamoreaux Corner. As no further exploration is planned in this area, the carrying value in the amount of $31,072 was written off to mineral exploration and evaluation assets at year end.

g) Loch Lomond, Southern New Brunswick

The Company has a 100% interest in the Shanklin Road and Grassy Lake claim groups comprising 39 claims (813 hectares) near the former Cape Spencer gold mine. As no further exploration is planned in this area, the carrying value in the amount of $11,748 was written off to mineral exploration and evaluation assets at year end.

h) Green Point, New Brunswick

The Company has a 100% interest, subject to a 2% net smelter return royalty in 118 claims (2,561 hectares) located near Bathurst, NB. The Company plans to continue exploration in this area. Capitalized costs at the year end date total $45,028.

10. SHORT-TERM LOAN PAYABLE

On November 15, 2012, the Company entered into a secured loan facility with a private company controlled by its largest shareholder in the amount of $1.4 million. This facility bears interest at 6% per annum and is repayable on June 30, 2013. As additional consideration, the Company also issued 2,000,000 common share purchase warrants which vested immediately, are exercisable at $0.20 per warrant and expire on June 5, 2014. The warrants were measured at $97,800 and recognized as a loan commitment fee asset to be taken into the loan's effective interest rate calculation on a pro-rata basis as the facility is drawn down. At year end, the Company had drawn $200,000 on the loan facility, of which $13,971 of the prepaid commitment fee was taken into loan balance. Using the calculated effective interest rate of 19%, interest expense of $3,929 was recognized during the year which comprised $1,348 in accrued interest payable and $2,581 in accretion of the loan balance.

11. FLOW-THROUGH SHARE PREMIUM

The flow-through share premium includes the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through share issuances:

Balance at January 1, 2011	$ 353,887
Liability incurred on flow-through shares issued	80,000
Settlement of flow-through share liability on incurring expenditures	(353,887)
Balance at December 31, 2011	$ 80,000
Liability incurred on flow-through shares issued	192,975
Settlement of flow-through share liability on incurring expenditures	(80,000)
Balance at December 31, 2012	**$ 192,975**

On February 24, 2011, the Company completed a non-brokered private placement of 2,000,000 flow-through shares at a price of $0.25 per flow-through share for aggregate gross proceeds of $500,000. A premium of $80,000 was recognized as a liability related to the issuance of the flow-through shares. These flow-through shares were renounced for tax purposes on March 28, 2012, and as a result, $80,000 has been recognized in profit or loss during the year as "other income."

On April 17, 2012, the Company completed a non-brokered private placement of 2,682,500 flow-through shares at a price of $0.08 per flow-through share for aggregate gross proceeds of $214,600. A premium of $80,475 was recognized as a liability related to the issuance of the flow-through shares. These flow-through shares were renounced for tax purposes on January 31, 2013, at which time the liability will be recognized in profit or loss as "other income."

11. FLOW-THROUGH SHARE PREMIUM (CONTINUED)

On September 21, 2012, the Company completed a non-brokered private placement of 3,750,000 flow-through shares at a price of $0.08 per flow-through share for aggregate gross proceeds of $300,000. A premium of $112,500 was recognized as a liability related to the issuance of the flow-through shares. These flow-through shares were renounced for tax purposes on January 31, 2013, at which time the liability will be recognized in profit or loss as "other income."

12. DEFERRED TAXES

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to loss before income taxes. The principle reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	December 31, 2012	December 31, 2011
Comprehensive loss before income taxes	**$(578,162)**	$ (626,189)
Corporate income tax rate	**25.00%**	26.50%
Expected income tax recovery	**(144,541)**	(165,940)
Non-deductible expenses	**83,248**	11,825
Non-taxable income	**(20,000)**	(100,053)
Tax effect regarding flow-through share renouncements	**164,482**	381,215
Share issuance costs	**-**	(812)
Change in tax rates	**-**	14,386
Other	**(23,423)**	16,040
Actual income tax provision (recovery)	**$59,766**	$ 156,661

The Canadian statutory tax rate changed from 26.5% to 25% due to the change of legislation.

12. DEFERRED TAXES (CONTINUED)

Deferred tax assets:

	January 1, 2012	Recognized in net loss	Recognized directly in equity	Recognized in other comprehensive loss	**December 31, 2012**
Property, plant and equipment	4,856	(1,205)	-	-	**3,651**
Investments	(5,606)	11,570	-	(5,390)	**574**
Share issue costs	13,538	-	(3,255)	-	**10,283**
Mineral exploration and evaluation assets	(1,524,049)	473,311	-	-	**(1,050,738)**
Earned depletable base	144,612	(144,612)	-	-	**-**
Capitalized stock-based compensation	16,869	-	9,161	-	**26,030**
Non-capital losses carried forward	675,170	(398,606)	-	-	**276,564**
Deferred tax liability	**(674,610)**	**(59,542)**	**5,906**	**(5,390)**	**(733,635)**

	January 1, 2011	Recognized in net loss	Recognized directly in equity	Recognized in other comprehensive loss	December 31, 2011
Property, plant and equipment	6,513	(1,657)	-	-	4,856
Investments	(8,054)	-	-	2,448	(5,606)
Share issue costs	30,049	-	(16,511)	-	13,538
Mineral exploration and evaluation assets	(1,284,954)	(239,095)	-	-	(1,524,049)
Earned depletable base	144,612	-	-	-	144,612
Capitalized stock-based compensation	13,631	-	3,238	-	16,869
Non-capital losses carried forward	565,982	109,188	-	-	675,170
Deferred tax liability	(532,221)	(131,564)	(13,273)	2,448	(674,609)

Deferred tax assets are calculated using the substantively enacted deferred income tax rate of 25% (2011 – 26.5%).

12. DEFERRED TAXES (CONTINUED)

At year end, the Company had non-capital loss carry forwards in the amount of $1,106,257 for income tax purposes available to use against future taxable income. The non-capital losses expire as follows:

2029	$ 246,184
2030	423,320
2031	436,753
Total	$ 1,106,257

13. RELATED PARTY TRANSACTIONS

During the year, the Company paid rent of $7,200 (2011 - $6,450) for office space owned by officers of the Company.

During the year, the Company paid project management and administrative fees of $16,000 (2011 - $nil) to a corporation owned by officers of the Company. Of these fees paid, $8,000 (2011 - $nil) were capitalized as mineral exploration and evaluation assets during the period. At December 31, 2012, an amount of $nil (2011 - $7,036) is owed to related parties of the Company.

During the year, the Company issued through private placement financing 362,500 common shares to directors and officers of the Company and issued 8,350,000 common shares to a private company controlled by Stratabound's largest shareholder.

Of the total salaries and benefits paid to key management, $29,000 (2011 - $40,000) was capitalized as mineral exploration and evaluation assets during the year.

Key Management Compensation

Key Management personnel compensation comprised:

For the year ended	**December 31, 2012**	December 31, 2011
Salaries and benefits	**$ 80,000**	$ 96,000
Stock-based compensation	**78,178**	5,298
	$ 158,178	$ 101,298

14. SHARE CAPITAL

a) Authorized

Unlimited number of common shares, without nominal or par value

b) Issuance of securities

i) During 2011, 275,000 common shares were issued for mineral properties. The fair value of these transactions was $31,250;
ii) In February, 2011, 2,000,000 common flow-through shares were issued for total proceeds of $500,000;
iii) In February, 2011, 125,000 options were exercised for total proceeds of $12,500.
iv) In April, 2012, 4,200,000 common shares were issued for total proceeds of $210,000;
v) In April, 2012, 2,682,500 common flow-through shares were issued for total proceeds of $214,600, $134,125 of which was allocated to share capital and $80,475 of which was allocated to the flow-through share premium;
vi) In September, 2012, 3,750,000 common flow-through shares were issued for total proceeds of $300,000, $187,500 of which was allocated to share capital and $112,500 of which was allocated to the flow-through share premium;
vii) During 2012, 60,000 common shares were issued for mineral properties. The fair value of these transactions was $4,200.

Share issue costs of $1,466 (2011 - $3,249) were netted against share capital during the year.

c) Stock options

The Company has a share-based compensation plan for its key officers, directors, employees and consultants. Up to 10% of the issued and outstanding shares may be reserved for issuance under the plan. The fair value of options granted was estimated to be $217,431 (2011 - $57,103) using the Black-Scholes option pricing model using the following assumptions: market price of $0.10 (2011 - $0.13); exercise price of $0.10 (2011 - $0.13); expected life of five years (2011 – five years); risk-free rate of 1.39% (2011 – 2.15%); expected volatility of 211% (2011 – 198%) and, dividend yield of 0% (2011 – 0%). As the options vest immediately, the forfeiture rate was determined to be 0% (2011 – 0%).

The following table summarizes the stock option transactions:

	Number		Weighted average exercise price
Outstanding January 1, 2011	6,495,555	$	0.18
Issued during the year	485,000		0.13
Exercised during the year	(125,000)		0.10
Expired and cancelled during the year	(1,520,000)		0.20
Outstanding December 31, 2011	**5,335,555**	**$**	**0.18**
Issued during the year	**2,225,000**		**0.10**
Expired and cancelled during the year	**(1,245,555)**		**0.26**
Outstanding at December 31, 2012	**6,315,000**	**$**	**0.13**

14. SHARE CAPITAL (CONTINUED)

The following table summarizes the options outstanding and exercisable as at December 31, 2012:

Options outstanding	Exercise price	Expiry date
550,000	0.40	January 9, 2013
2,125,000	0.10	August 17, 2014
50,000	0.12	August 17, 2014
950,000	0.10	September 2, 2015
415,000	0.13	July 12, 2016
2,225,000	0.10	May 17, 2017
6,315,000		

d) Warrants

The following table summarizes the warrant transactions:

	Number		Weighted Average Exercise price
Outstanding at January 1, 2011 and December 31, 2011	3,405,970	$	0.40
Issued during the year	**2,000,000**		**0.20**
Expired during the year	**(3,405,970)**		**0.40**
Outstanding at December 31, 2012	**2,000,000**	**$**	**0.20**

The following table summarizes the warrants outstanding and exercisable as at December 31, 2012:

Warrants Outstanding		Exercise price	Expiry date
2,000,000	$	0.20	June 5, 2014

The warrants were issued in connection with the short-term loan payable (Note 10).

e) Nature and purpose of equity and reserves

The reserves recorded in equity on the Company's statement of financial position include 'Contributed Surplus,' 'Accumulated Other Comprehensive Income' and 'Accumulated Deficit.'

'Contributed Surplus' is used to recognize the value of stock option grants and share warrants prior to exercise.

'Accumulated Other Comprehensive Income' includes an available-for-sale reserve. This reserve is used to recognize fair value changes on available-for-sale investments.

'Accumulated Deficit' is used to record the Company's change in deficit from earnings from year to year.

15. COMMITMENTS

At December 31, 2012, the Company has an outstanding lease commitment for the rental of a core shack/office/storage facility. The remaining obligation is $18,900 and the lease expires on July 31, 2013.

At December 31, 2012, the Company has no commitments related to its flow-through share issuances.

At December 31, 2012, the Company has committed to spending an additional $300,000 on exploration to complete the year 3 requirements under the option agreement with Commander Resources (Note 9(d)).

16. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. As the Company was in a loss position during the current and prior year, the effect of the stock options and warrants would be anti-dilutive and are therefore not included in the calculation of diluted loss per share for the years ending December 31, 2011 and 2012. Loss per share is calculated as follows:

	December 31, 2012		
	Loss for the year	Weighted average common shares outstanding	Loss per share
Basic and diluted	$ 657,475	71,070,657	$ 0.009

	December 31, 2011		
	Loss for the year	Weighted average common shares outstanding	Loss per share
Basic and diluted	$ 795,963	64,795,864	$ 0.012

17. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2012	December 31, 2011
Professional fees	**$ 101,400**	$ 145,161
Salaries and benefits	**56,191**	62,608
Office and other	**37,862**	43,423
Filing fees and investor communications	**32,774**	79,351
Rent	**7,200**	6,450
Finance expense	**3,928**	-
	$ 239,355	$ 336,993

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market risk
- Credit risk
- Liquidity risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receive monthly reports from the Company's Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk:

i) Foreign currency risk;
ii) Interest rate risk;
iii) Commodity price risk; and,
iv) Equity price risk.

Equity price risk is the only risk currently affecting the Company. This type of risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its available-for-sale assets. The available-for-sale investment in the common shares of publicly traded companies is monitored by Management with decisions relating to disposals made at the Board level. A 10% change in the market value of the investments would result approximately in a $1,300 (2011 - $5,300) change in total comprehensive income.

b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk include cash and other receivables. Cash is maintained with financial institutions and may be redeemed upon demand; and other receivables are amounts due from the government. Both the financial and government institutions are considered reputable and creditworthy institutions.

The carrying amount of cash and other receivables represents the maximum credit exposure. The Company has gross credit exposure at December 31, 2012 and December 31, 2011 of $99,746 and $26,142, respectively. Management considers that all financial assets held are of good credit quality, except for the $200,000 (note 9) now deemed uncollectable and therefore credit risk is not considered significant.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Typically, the Company ensures that it has sufficient cash to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary.

Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditure.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing accounts payable and accrued liabilities in conjunction with its daily cash position. At year end, accounts payable and accrued liabilities and short-term loan payable are current. For further information regarding the Company's ability to continue as a going concern see Note 1.

Determination of fair value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amounts for cash, other receivables, accounts payable and accrued liabilities and short-term loan payable approximate fair value due to their short-term nature. The carrying amount for available-for-sale investments is equivalent to fair value as the balance is derived from quoted prices in an active market.

Fair value hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The fair value of the available-for-sale asset is based on quoted prices and is therefore considered to be Level 1.

19. CAPITAL MANAGEMENT

The Company considers its capital to comprise share capital, contributed surplus, and accumulated other comprehensive income and deficit. The Company's objectives when managing capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the same time preserve investors' confidence required to sustain future development of the business.

The Company is not exposed to any externally imposed capital requirements.

20. SUBSEQUENT EVENTS

During January, 2013, the Company obtained regulatory and operational approval to construct and operate the Captain North Extension zinc-lead-silver-gold open pit mine in New Brunswick, Canada. A total of $850,000 has been posted with the New Brunswick Department of Energy and Mines for reclamation and environmental security. Construction of the mine commenced on January 26, 2013 and milling has been completed on a 10 week mining program.

During January, 2013, the Company has entered into a second secured loan facility for up to $850,000 with a private company controlled by its largest shareholder. This loan carried interest at 6% and is repayable on June 30, 2013, subject to being repaid earlier out of the proceeds from mine operations. As additional compensation for the loan, the Company has issued 1 million warrants, exercisable at $0.20 for a period of 18 months.

During April, 2013, the Company announced that it has issued 1,775,000 stock options to directors, officers and employees, of which 1,350,000 will go to insiders. Each option entitles the holder to acquire one common share of the Company for a period of five years at a price of $0.10 per share. These options were issued in accordance with the Company's stock option plan.