RACKLA
METALS INC

# FINANCIAL REVIEW

## Fiscal Year Ended December 31, 2012

# RACKLA METALS INC

(An Exploration Stage Company)

## FINANCIAL STATEMENTS

## For the year ended December 31, 2012 and for the period from incorporation on September 20, 2011 to December 31, 2011

(Expressed in Canadian Dollars)

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# INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Rackla Metals Inc.**

We have audited the accompanying financial statements of Rackla Metals Inc., which comprise the statements of financial position as at December 31, 2012 and 2011 and the statements of comprehensive loss, changes in equity and cash flows for the year ended December 31, 2012 and the period from incorporation on September 20, 2011 to December 31, 2011, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation 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 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 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 Rackla Metals Inc. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the year ended December 31, 2012 and the period from incorporation on September 20, 2011 to December 31, 2011 in accordance with International Financial Reporting Standards.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which indicates that the Company had not yet achieved profitable operations and had an accumulated deficit of $1,887,798 as at December 31, 2012. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern.

*(signed) “BDO Canada LLP”*

Chartered Accountants
April 25, 2013

# RACKLA METALS INC.

(An Exploration Stage Company)

**STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian Dollars)

| **As at:** | **December 31, 2012** | **December 31, 2011** |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | $ 629,217 | $ 999,514 |
| Available-for-sale investments (Note 6) | 341,000 | 603,500 |
| Taxes receivable | 22,437 | 1,622 |
| Prepaid expenses and deposits (Note 14) | 80,861 | - |
| | 1,073,515 | 1,604,636 |
| **Non-current assets** | | |
| Property and equipment (Note 7) | 16,848 | 15,122 |
| Exploration and evaluation assets (Note 8) | 4,601,014 | 4,516,717 |
| | 4,617,862 | 4,531,839 |
| **TOTAL ASSETS** | **$ 5,691,377** | **$ 6,136,475** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 33,751 | $ 36,779 |
| Due to related parties (Note 14) | 39,983 | 23,947 |
| Other liability (Note 9) | 60,000 | - |
| **Total liabilities** | 133,734 | 60,726 |
| **Shareholders' equity** | | |
| Share capital (Note 10) | 7,301,445 | 6,163,395 |
| Other equity reserves (Note 10(c)) | 143,996 | - |
| Deficit | (1,887,798) | (31,396) |
| Accumulated other comprehensive income (loss) | - | (56,250) |
| **Total shareholders' equity** | 5,557,643 | 6,075,749 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **$ 5,691,377** | **$ 6,136,475** |

Nature of operations and ability to continue as a going concern – Note 2

**APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON APRIL 25, 2013:**

*"Simon Ridgway"*
Simon Ridgway, Director

*"William Katzin"*
William Katzin, Director

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

## RACKLA METALS INC.

(An Exploration Stage Company)

**STATEMENTS OF COMPREHENSIVE LOSS**

For the year ended December 31, 2012 and period from incorporation on September 20, 2011 to December 31, 2011

(Expressed in Canadian Dollars)

| | | **Year ended December 31, 2012** | | **For the period from incorporation on September 20, 2011 to December 31, 2011** |
|---|---|---:|---|---:|
| **EXPLORATION EXPENDITURES** (Notes 12 and 14) | $ | 833,202 | $ | - |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | | | |
| Amortization | | 2,052 | | 160 |
| Legal and audit fees | | 35,534 | | 22,000 |
| Management fees (Note 14) | | 31,500 | | - |
| Office and administrative (Note 14) | | 97,090 | | 4,182 |
| Public relations (Note 14) | | 24,076 | | 3,000 |
| Salaries and benefits (Note 14) | | 117,455 | | 1,699 |
| Share-based compensation (Note 11) | | 137,951 | | - |
| Transfer agent and regulatory fees (Note 14) | | 19,905 | | - |
| Travel and accommodation (Note 14) | | 17,555 | | 355 |
| | | 483,118 | | 31,396 |
| **Loss before other items** | | (1,316,320) | | (31,396) |
| **OTHER ITEMS** | | | | |
| Loss on impairment of available-for-sale investments (Note 6) | | (318,750) | | - |
| Write-down of exploration and evaluation asset costs (Note 8) | | (221,332) | | - |
| **Net loss for the period** | **$** | **(1,856,402)** | **$** | **(31,396)** |
| **Other comprehensive gain (loss)** | | | | |
| Fair value gains (losses) on available-for-sale investments | | (262,500) | | (56,250) |
| Transfer of impairment on investment | | 318,750 | | - |
| **Total comprehensive loss** | **$** | **(1,800,152)** | **$** | **(87,646)** |
| Basic and diluted loss per share | | $(0.05) | | $(0.00) |
| Weighted average number of common shares outstanding | | 39,391,822 | | 8,132,897 |

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

# RACKLA METALS INC.

(An Exploration Stage Company)

**STATEMENTS OF CHANGES IN EQUITY**

For the year ended December 31, 2012 and period from incorporation on September 20, 2011 to December 31, 2011

(Expressed in Canadian Dollars)

| | | | **Other equity reserves** | | | | |
|---|---|---|---|---|---|---|---|
| | **Number of common shares** | **Share capital** | **Share-based payments** | **Share purchase warrants** | **Accumulated other comprehensive income (loss)** | **Deficit** | **Total** |
| Shares issued upon incorporation on September 20, 2011 | 1 | $ 1 | $ - | $ - | $ - | $ - | $ 1 |
| Loss for the period | - | - | - | - | - | (31,396) | (31,396) |
| Shares issued on spin-out transaction (Note 10) | 36,067,625 | 6,176,467 | - | - | - | - | 6,176,467 |
| Share issuance costs | - | (13,073) | - | - | - | - | (13,073) |
| Available-for-sale investments | - | - | - | - | (56,250) | - | (56,250) |
| Balance, December 31, 2011 | 36,067,626 | 6,163,395 | - | - | (56,250) | (31,396) | 6,075,749 |
| Loss for the year | - | - | - | - | - | (1,856,402) | (1,856,402) |
| Shares issued on private placements (Note 10) | 13,612,500 | 1,089,000 | - | - | - | - | 1,089,000 |
| Shares issued for finders' fees (Note 10) | 243,750 | 19,500 | - | - | - | - | 19,500 |
| Shares issued for property acquisition (Note 10) | 569,996 | 65,350 | - | - | - | - | 65,350 |
| Share issuance costs | - | (35,800) | - | 6,045 | - | - | (29,755) |
| Fair value gains (losses) on available-for-sale investments | - | - | - | - | (262,500) | - | (262,500) |
| Transfer of impairment on investment | - | - | - | - | 318,750 | , | 318,750 |
| Share-based compensation | - | - | 137,951 | - | - | - | 137,951 |
| **Balance, December 31, 2012** | **50,493,872** | **$ 7,301,445** | **$ 137,951** | **$ 6,045** | **$ -** | **$ (1,887,798)** | **$ 5,557,643** |

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

**STATEMENTS OF CASH FLOWS**
For the year ended December 31, 2012 and period from incorporation on September 20, 2011 to December 31, 2011
(Expressed in Canadian Dollars)

| | | Year ended December 31, 2012 | | For the period from incorporation on September 20, 2011 to December 31, 2011 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **OPERATING ACTIVITIES** | | | | |
| Net loss for the period | $ | (1,856,402) | $ | (31,396) |
| Items not involving cash: | | | | |
| Amortization | | 2,052 | | 160 |
| Write-down of exploration and evaluation asset costs | | 221,332 | | - |
| Loss on impairment of available-for-sale investments | | 318,750 | | - |
| Share-based compensation | | 137,951 | | - |
| | | (1,176,317) | | (31,236) |
| Changes in non-cash working capital items: | | | | |
| Taxes receivable | | (20,815) | | (1,622) |
| Prepaid expenses | | (80,861) | | - |
| Due to related parties | | 16,036 | | 8,665 |
| Accounts payable and accrued liabilities | | (3,028) | | 36,779 |
| | | (1,264,985) | | 12,586 |
| **FINANCING ACTIVITIES** | | | | |
| Proceeds on issuance of common shares | | 1,149,000 | | 1,000,001 |
| Share issuance costs | | (10,255) | | (13,073) |
| | | 1,138,745 | | 986,928 |
| **INVESTING ACTIVITIES** | | | | |
| Acquisition of exploration and evaluation assets | | (240,279) | | - |
| Purchase of property & equipment | | (3,778) | | - |
| | | (244,057) | | - |
| **Increase (decrease) in cash** | | (370,297) | | 999,514 |
| Cash - beginning of period | | 999,514 | | - |
| **Cash - end of period** | **$** | **629,217** | **$** | **999,514** |

Supplemental disclosure with respect to cash flows – Note 18

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

## 1. CORPORATE INFORMATION

The Company is pursuing opportunities related to exploration of mineral resource properties principally in the Yukon Territory, Canada. The Company was incorporated in the Province of British Columbia on September 20, 2011, and is listed on the TSX Venture Exchange (“TSX-V”), having the symbol RAK.

Pursuant to a plan of arrangement (the “Arrangement”) with Radius Gold Inc. (“Radius”) which was completed on December 8, 2011, Radius’ interest in the Scarlet property, Sixty Mile area properties, Ten Mile Creek property, Rivier property, and other staked Yukon properties (collectively, the “Projects”) were transferred into the Company, together with $1.0 million in cash, and marketable securities consisting of 750,000 common shares of Solomon Resources Limited (“Solomon”) and 600,000 common shares of Cordoba Minerals Corp. (“Cordoba”) (formerly called Wesgold Minerals Inc.). Under the Arrangement, each Radius shareholder received one common share and one full warrant in the Company for every three Radius shares held. Each warrant entitles the holder to purchase one common share of the Company at $0.30 until June 8, 2013 being 18 months from the date of listing of the Company on the TSX-V. Upon the completion of the Arrangement, Radius held 19.9% of the issued shares and warrants of the Company. Subsequent to the Arrangement, Radius participated in the Company’s October 11, 2012 private placement (Note 10) whereby Radius now holds 19.5% of the issued shares and 19.7% of the issued warrants of the Company.

The address of the Company’s corporate office and principal place of business is #650, 200 Burrard Street, Vancouver, BC, Canada V6C 3L6.

## 2. BASIS OF PREPARATION

### Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). IFRS has been applied since incorporation on September 20, 2011.

### Basis of Measurement

These financial statements have been prepared on the historical cost basis as modified by the revaluation of available-for-sale financial assets. The presentation and functional currency of the Company is the Canadian dollar.

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 of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

### Nature of Operations and Ability to Continue as a Going Concern

These financial statements have been presented on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Realization values may be substantially different from the carrying values shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2012, the Company had not yet achieved profitable operations, has accumulated losses of $1,887,798 since inception, and is expected to incur further losses in the development of its business, all of which raises significant doubt about its ability to continue as a going concern. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently throughout the period.

### (a) Loss Per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

### (b) Income Taxes

Income tax on profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is recognized 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. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, on a non-discounted basis using tax rates at the end of the reporting period applicable to the period of expected realization.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

### (c) Foreign Currency Translation

The functional currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

(i) Monetary assets and liabilities, at the exchange rate in effect as at the balance sheet date;
(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
(iii) Revenues and expenses at the exchange rates on the date of the transactions.

The effects of translation are credited or charged to the statement of comprehensive loss/income as foreign exchange gain or loss.

### (d) Available-for-sale Investments

Available-for-sale investments are recorded at fair market value as they are considered available-for-sale.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (e) Property, Equipment and Amortization

*Recognition and Measurement*

On initial recognition, equipment is valued at cost, being the purchase price and directly attributable cost of acquisition required to bring the asset to the location and condition necessary to be capable of operating in a manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Equipment is subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

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

*Subsequent Costs*

The cost of replacing part of an item of 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 day-to-day servicing of equipment are recognized in profit or loss as incurred.

*Major Maintenance and Repairs*

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

*Gains and Losses*

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

*Amortization*

Amortization is recognized in profit or loss and equipment is amortized over their estimated useful lives using the following methods:

| | |
|---|---|
| Leasehold improvements | 7 - 8 years straight-line |

## 3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (f) Exploration and Evaluation Assets and Expenditures

Acquisition costs for mineral property interests, net of recoveries, are capitalized on a property-by-property basis. Acquisition costs may include cash consideration, the value of common shares issued based on fair values, and the fair value of share purchase warrants and options issued based on amounts determined using the Black-Scholes option pricing model, for mineral property interests pursuant to the terms of the agreement.

Exploration expenditures, net of recoveries, are charged to operations as incurred. After a property is determined by management to be commercially feasible, development expenditures on the property are capitalized.

When there is little prospect of further work on a property being carried out by the Company or its optionee, when a property is abandoned or when the capitalized costs are no longer considered recoverable, the related property costs are written down to management's estimate of their net recoverable amount. Acquisition assets are also tested for impairment before the assets are transferred to development properties. The costs related to a property from which there is production, together with the costs of production equipment, will be depleted and amortized using the unit-of-production method.

Mineral property interests acquired under an option agreement where payments are made at the sole discretion of the Company are capitalized at the time of payment. 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 recognized in net income.

### (g) Provisions

*Rehabilitation Provision*

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the year in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and revegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related exploration properties. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

At December 31, 2012, the fair value of the exploration and evaluation rehabilitation costs was not considered significant.

*Other Provisions*

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, where it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (h) Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants, options 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 proceeds.

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "unit"), and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company..

*Flow-through Shares*

The Company has issued flow-through common shares to finance a portion of its exploration programs in Canada. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of the tax reduction renounced to the shareholders. The premium reversal is recognized as a recovery in deferred tax expense and the related deferred tax, if any, is recognized as tax provision.

Proceeds received from the issuance of flow-through shares are intended to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's reporting year is disclosed separately in Note 9.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

### (i) 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 loss/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 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 terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statements of comprehensive loss/income over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss/income over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (i) Share-based Payments *(cont'd)*

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 loss/income. 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 use of a valuation model.

All equity-settled share-based payments are reflected in other equity reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in other equity reserve is credited to share capital, adjusted for 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 immediately accounts for the cancellation as an acceleration of vesting and recognizes 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.

### (j) Impairment of Non-Financial Assets

Impairment tests on non-financial assets, including exploration and evaluation assets are undertaken 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.

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, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss, except to the extent it reverses gains previously recognized in other comprehensive loss/income.

### (k) Financial Instruments

**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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (k) Financial Instruments *(cont'd)*

**Financial Assets** *(cont'd)*

*Available-For-Sale Investments*

Non-derivative financial assets that do not meet the definition of loans and receivables are classified as available-for-sale and comprise principally the Company's strategic 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 loss/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 loss/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.

On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

*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.

**Financial Liabilities**

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of accounts payables and accrued liabilities and amounts due to related parties. 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 redemptions, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within forty-five days of recognition.

The Company has made the following designations of its financial instruments:

| | |
|---|---|
| Cash | Loans and receivables |
| Investments | Available-for-sale financial assets |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Due to related parties | Other financial liabilities |

### (l) Segment Reporting

The Company operates in a single reportable operating segment.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (m) Standards, Amendments and Interpretations Not Yet Effective

The following new standards and interpretations have been issued by the IASB but are not yet effective:

*IFRS 9 Financial Instruments*

IFRS 9 is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

*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. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.* The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning January 1, 2013.

*IFRS 11 Joint Arrangements*

IFRS 11 requires a venturer 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 venturer 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 interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning January 1, 2013.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests 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 interests in other entities. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning January 1, 2013.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (m) Standards, Amendments and Interpretations Not Yet Effective *(cont'd)*

*IFRS 13 Fair Value Measurement*

IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs 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 IFRSs or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is in the process of evaluating the impact of the new standard.

No additional new standards, amendments and interpretations have been early adopted in these financial statements and there are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## 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 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.

The key areas of judgment applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

a) The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

   If, after exploration and evaluation expenditure is capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, the Company carries out an impairment test at the cash generating unit or group of cash generating units level in the year the new information becomes available.

b) The Company has not recognized a deferred tax asset as management believes that it is not probable that taxable profit will be available against which a deductible temporary difference can be utilized.

c) The determination of when an investment is impaired required significant judgment. In making this judgment, the Company evaluates, amongst other things, the duration and extent to which the fair value of the investment is less that its original cost at each reporting period.

The key estimate applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

a) The provision for income taxes and recognition of deferred income tax assets and liabilities.

## 5. CASH

Cash at banks earns variable interest depending on the amount that the bank's prime rate exceeds a certain rate. The Company has reserved $300,000 of its cash on hand, the amount equal to the Company's flow-through expenditure commitment, which is intended to be spent on flow-through eligible activities during the 2013 fiscal year (Note 9).

## 6. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments are recorded at fair market value and consist of common shares in three other companies and therefore have no fixed maturity date or coupon rate.

As part of the spin-out Arrangement completed on December 11, 2011, Radius assigned to the Company marketable securities consisting of 600,000 common shares in Cordoba, a public company with common directors and officers, and 750,000 common shares in Solomon, a public company. Subsequent to the Arrangement, the Company received 200,000 common shares from Voyager Gold Corp. ("Voyager"), a private company with a common director, as an option payment relating to the Company's Rivier property. These private company shares were initially measured at fair value and are carried at cost at December 31, 2012. This transaction accounts for the $11,000 acquisition costs recovery for the Rivier property option agreement (Note 8).

For the year ended December 31, 2012, the Company determined that the decline in value of Cordoba and Solomon shares was other than temporary and accordingly recorded impairments of $300,000 and $18,750 respectively. As at December 31, 2012, the carrying amount for the available-for-sale investments was $341,000 (December 31, 2011: $603,500). .

| | Cordoba | Solomon | Voyager | Total |
|---|---|---|---|---|
| Balance, September 20, 2011 | $ - | $ - | $ - | $ - |
| Shares acquired pursuant to the Arrangement (Note 1) | 600,000 | 48,750 | - | 648,750 |
| Acquisition of shares | - | - | 11,000 | 11,000 |
| Net change in fair value recorded in other comprehensive income | (60,000) | 3,750 | - | (56,250) |
| Balance, December 31, 2011 | 540,000 | 52,500 | 11,000 | 603,500 |
| Impairment of investments | (300,000) | (18,750) | - | (318,750) |
| Net change in fair value recorded in other comprehensive income | 60,000 | (3,750) | - | 56,250 |
| **Balance, December 31, 2012** | **$ 300,000** | **$ 30,000** | **$ 11,000** | **$ 341,000** |

## 7. PROPERTY AND EQUIPMENT

| | | **Leasehold improvements** |
|---|---|---|
| **Cost** | | |
| Balance, September 20, 2011 | $ | - |
| Additions | | 15,282 |
| Disposals | | - |
| Balance, December 31, 2011 | | 15,282 |
| Additions | | 3,778 |
| Disposals | | - |
| **Balance, December 31, 2012** | **$** | **19,060** |
| **Accumulated amortization** | | |
| Balance, September 20, 2011 | $ | - |
| Charge for the period | | 160 |
| Balance, December 31, 2011 | | 160 |
| Charge for the year | | 2,052 |
| **Balance, December 31, 2012** | **$** | **2,212** |
| **Carrying amounts** | | |
| At December 31, 2011 | $ | 15,122 |
| **At December 31, 2012** | **$** | **16,848** |

## 8. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition costs of its mineral property interests as at December 31, 2012.

| | **Scarlet** | **Sixty Mile** | **Rivier** | **Ten Mile Creek** | **Face** | **Newt** | **Iola** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Balance - September 20, 2011 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Acquired pursuant to the Arrangement | 886,745 | 3,209,664 | 83,275 | 15,406 | 90,785 | 221,332 | 20,510 | 4,527,717 |
| Acquisition costs recovered (Note 6) | - | - | (11,000) | - | - | - | - | (11,000) |
| Balance - December 31, 2011 | 886,745 | 3,209,664 | 72,275 | 15,406 | 90,785 | 221,332 | 20,510 | 4,516,717 |
| Acquisition costs - cash | 8,796 | 46,000 | - | 75,000 | 110,483 | - | - | 240,279 |
| Acquisition costs - shares | - | 60,600 | 4,750 | - | - | - | - | 65,350 |
| Write-off acquisition costs | - | - | - | - | - | (221,332) | - | (221,332) |
| **Balance - December 31, 2012** | **$ 895,541** | **$3,316,264** | **$ 77,025** | **$ 90,406** | **$ 201,268** | **$ -** | **$ 20,510** | **$4,601,014** |

i) Scarlet Property – Yukon Territory

The Scarlet Property consists of 743 claims located in the Mayo Mining District, Yukon, of which 15 claims were staked during the year ended December 31, 2012 at a cost of $8,796. The Property is divided into two claim blocks; Scarlet East which consists of 230 claims; and Scarlet West which consists of 513 claims.

On March 27, 2012, the Company granted to Strategic Metals Ltd. ("Strategic") the option to acquire an undivided 60% interest in the Scarlet East claim block. Strategic can exercise the option by making $5.0 million in exploration expenditures on the property as follows:

a) $500,000 on or before December 31, 2013 (incurred);
b) An additional $1,000,000 on or before December 31, 2014;
c) An additional $1,500,000 on or before December 31, 2015; and
d) An additional $2,000,000 on or before December 31, 2016.

Also required to keep the option in good standing was the completion by Strategic of not less than 1,000 metres of drilling on or before December 31, 2012, which was fulfilled. Upon exercising the option, Strategic and the Company will respectively hold 60% and 40% interests in the Scarlet East claim block.

ii) Sixty Mile Area – Yukon Territory

The Sixty Mile Property, located in the Dawson Mining District, Yukon consists of 753 claims as at December 31, 2012, of which 638 claims are 100% owned and 115 claims are held pursuant to option agreements. During the year ended December 2012, the Company decided not to renew 30 claims in Alaska which were part of the Sixty Mile Property.

Pursuant to the Arrangement (Note 1), Radius assigned 100% of the claims to the Company, and the Company assumed the obligations of Radius relating to various option agreements to acquire a 100% interest in certain of the claims which require cash payments and the issuance of shares over a four-year period. During the year ended December 31, 2012, the Company terminated option agreements pertaining to 162 claims, amended one of the option agreements to eliminate the cash payment due in 2012, and made option payments totalling $46,000 cash and 519,996 shares with a fair value of $60,600. Subsequent to the year end, the Company terminated an option agreement pertaining to 52 claims.

## 8. EXPLORATION AND EVALUATION ASSETS *(cont'd)*

ii) Sixty Mile Area – Yukon Territory *(cont'd)*

If the Company exercises all of the remaining options, the Company must pay annual advance royalty payments totaling $94,000 to the property owners until such time as commercial production on the applicable property is achieved, at which time the property owner(s), as applicable, shall be entitled to NSR royalties ranging from 2.5% to 3.0%.

iii) Rivier Property – Yukon Territory

The Rivier Property consists of 116 claims located in the Watson Lake Mining District, Yukon.

In 2010, Roger Hulstein ("Hulstein") staked 100 of the claims (the "Hulstein Claims") comprising the Rivier Property. In accordance with an Agreement between Radius and Hulstein dated July 18, 2010, Radius was granted the option (the "Hulstein Option") to earn a 100% interest in the Hulstein Claims. Also in 2010, Radius acquired the other 16 Rivier claims by staking (the "Staked Claims"). Subsequently, as part of the Arrangement, Radius assigned all of its rights and obligations in the Hulstein Option and the Staked Claims to the Company. During the year ended December 31, 2012 and before the next scheduled payment in July 2012, the Hulstein Option was amended. In order to exercise the amended Hulstein Option, a total of $175,000 cash and 250,000 shares are payable to Hulstein according to the following schedule:

a) $25,000 cash and 25,000 common shares upon signing (cash paid and shares issued by Radius);
b) $10,000 cash and 25,000 common shares on or before July 18, 2011 (cash paid and shares issued by Radius);
c) 50,000 common shares on or before July 18, 2012 (shares issued);
d) $20,000 cash and 50,000 common shares on or before July 18, 2013;
e) $40,000 cash and 50,000 common shares on or before July 18, 2014; and
f) $80,000 cash and 50,000 common shares on or before July 18, 2015.

Pursuant to an agreement dated September 1, 2011, Radius granted to Voyager the option (the "Voyager Option") to acquire a 60% interest in the Property. The Voyager Option was assigned to the Company as part of the Arrangement (Note 1), and amended November 1, 2012.

In order to keep the Voyager Option in good standing, Voyager must pay $200,000 cash to the Company, issue a total of 1,000,000 common shares of Voyager to the Company and incur an aggregate of $1,000,000 in exploration expenditures on the Property, as follows:

| Due date | Cash | Shares | Expenditures |
|---|---|---|---|
| Upon completion of the Arrangement<br>(shares received December 9, 2011) | $ - | 200,000 | $ - |
| By December 31, 2011 (expenditures incurred) | - | - | 100,000 |
| On public listing of Voyager | - | 200,000 | - |
| By November 30, 2013 | 50,000 | 200,000 | 200,000 |
| By November 30, 2014 | 50,000 | 200,000 | 300,000 |
| By November 30, 2015 | 100,000 | 200,000 | 400,000 |
| | $ 200,000 | 1,000,000 | $ 1,000,000 |

## 8. EXPLORATION AND EVALUATION ASSETS *(cont'd)*

iii) Rivier Property – Yukon Territory *(cont'd)*

The 200,000 Voyager shares issued to the Company had a fair value of $11,000 at the date of transaction.

The Company must keep the Hulstein Option in good standing as long as the Voyager Option remains outstanding. Assuming the Hulstein Option and the Voyager Option are exercised, a joint venture will be formed to further develop the Property on the basis of Voyager 60% / the Company 40%. Pursuant to the Hulstein Option, the Company's and Voyager's ownership will be subject to a 3% Net Smelter Return royalty ("NSR"). An advance royalty payment of $20,000 is to be paid to Hulstein annually beginning on July 18, 2015 until the Property is deemed to be in production. The Company and Voyager may jointly elect to reduce the NSR to 2% by making a onetime payment to Hulstein of $1 million.

iv) Ten Mile Creek Property – Yukon Territory

The Ten Mile Creek Property, Yukon is comprised of 323 claims, of which 269 claims were acquired by Radius in 2009 by staking, and 54 claims (the "Optioned Claims") were optioned to Radius in 2009.

Radius had the option to earn a 100% interest in the Optioned Claims in consideration of conducting an initial sampling program of $70,000 (completed by Radius) and cash and share payments to the property owner according to the following schedule:

a) $25,000 on signing of the agreement (paid by Radius);
b) $50,000 on or before May 31, 2010 (paid by Radius);
c) $75,000 on or before May 31, 2011 (paid by Radius);
d) $75,000 on or before May 31, 2012 (paid);
e) $75,000 on or before May 31, 2013; and
f) Either $100,000 or issue 400,000 shares, on or before May 31, 2013, the method of such payment at the discretion of the property owner.

As part of the Arrangement (Note 1), Radius assigned all of its rights to the Ten Mile Property to the Company. In addition to the above-noted cash payments and share issuances required to keep the option in good standing, commencing on May 31, 2014 and on May 31 each year thereafter, the Company must pay $10,000 to the property owner until such time as commercial production of the Property is achieved, at which time the $10,000 payments shall cease and the property owner shall be entitled to a 1.0% NSR royalty. As well, an underlying 1.5% NSR royalty is payable to Teck Resources Limited. The Company has the right at any time to reduce the property owner's NSR to 0.5% by paying $500,000, or to 0.25% by paying $1.0 million.

In September 2009, Radius granted to Solomon the option (the "Solomon Option") to acquire a 51% interest in the Ten Mile Creek Property. Solomon was to earn its interest in the Property by spending $2.5 million on exploration and making staged cash and share payments totaling $500,000 cash and 1 million shares of Solomon over three years. The Solomon Option was subsequently assigned to the Company as part of the Arrangement and as a result, the Company received 750,000 shares of Solomon. In May 2012, the Solomon Option was terminated as Solomon did not make the required option payments due May 21, 2012.

## 8. EXPLORATION AND EVALUATION ASSETS *(cont'd)*

v) Snowcap Property – Yukon Territory

In 2009, Radius staked 198 claims in the Whitehorse Mining District, Yukon known as the Snowcap Property. By an agreement dated November 8, 2009, as amended, Radius granted to Cordoba the option to acquire a 60% interest in the Property in consideration of issuing to Radius an aggregate of 1,000,000 Cordoba common shares and incurring exploration expenditures of $1,000,000, over a four-year period. Prior to terminating the option agreement in September 2011, Cordoba had issued 600,000 common shares to Radius which was then assigned to the Company as part of the Arrangement (Note 1). On December 30, 2011, the Company disposed of the Snowcap claims to an unrelated third party for a nominal amount of $1.

vi) Face Property – Yukon Territory

The Face Property was originally comprised of 270 claims in the Dawson Mining District, Yukon which were staked by Radius and subsequently assigned to the Company as part of the Arrangement (Note 1). During the year ended December 31, 2012, the Company expanded the Face Property to a total of 705 claims, by staking 431 claims at a cost of $100,483 and purchasing four claims from a third party for $10,000.

vii) Newt Property – Yukon Territory

The Newt Property is comprised of 462 claims in the Dawson Mining District, Yukon which were staked by Radius and subsequently assigned to the Company as part of the Arrangement (Note 1). At December 31, 2012, the Company recorded a write-down of $221,332 on acquisition costs for the Newt Property bringing the carrying value to nil.

viii) Iola Property – Yukon Territory

The Iola Property is comprised of 80 claims in the Whitehorse Mining District, Yukon which were staked by Radius and subsequently assigned to the Company as part of the Arrangement (Note 1).

## 9. OTHER LIABILITY

The Other Liability is the liability portion of the flow-through shares issued. The following shows the liability portion of the flow-through share issuances:

| **Due date** | | **Issued on October 11, 2012** |
|---|---|---|
| Balance at incorporation on September 20, 2011 and December 31, 2011 | $ | - |
| Liability incurred on flow-shares issued | | 60,000 |
| Settlement of flow-through share liability on incurring expenditures | | - |
| **Balance at December 31, 2012** | **$** | **60,000** |

Other liabilities arise on the issuance of flow-through shares when the price of each flow-through share exceeds the price of other non-flow through common share issued at the same time.

On October 11, 2012, the Company closed a private placement by issuing 3,000,000 flow-through units, at a price of $0.10 per unit for gross flow-through proceeds of $300,000. The flow through shares were issued at a premium of $0.02 per share.

As at December 31, 2012, the Company has not fulfilled any of its commitment to incur $300,000 of exploration expenditures in relation to the October 11, 2012 flow-through share financing. However, the Company has renounced the $300,000 in flow-through eligible expenditures as of December 31, 2012 using the Look-back Rule, in accordance with Government of Canada flow-through regulations, whereby the exploration expenditures must be incurred by December 31, 2013. If the Company does not spend these funds in compliance with the Government of Canada flow through regulations, it may be subject to indemnification or other claims by the flow through subscribers.

## 10. SHARE CAPITAL AND RESERVES

### (a) Common Shares

The Company is authorized to issue an unlimited number of common shares without par value.

During the year ended December 31, 2012, the Company issued common shares as follows:

i) On October 11, 2012, the Company closed a non-brokered private placement consisting of 3,000,000 flow-through units at $0.10 per unit for gross proceeds of $300,000 and 10,612,500 units at $0.08 per unit, for gross proceeds of $849,000. The sale proceeds for the 10,612,500 non-flow-through units were allocated all to share capital and none to warrants. The sale proceeds for the 3,000,000 flow-through units were bifurcated with $240,000 being allocated to share capital and $60,000 being charged as other liability. Each unit consists of one common share and one-half of one warrant, each whole warrant entitling the holder to purchase one additional common share at $0.10 exercisable for two years. The Company issued 243,750 units and 243,750 warrants as finders' fees in connection with the financing, with each finder's fee warrant having the same terms as the unit warrants. The fair value of the 243,750 finders' fee warrants was $6,045 and was recorded as share issuance costs and an offset to other equity reserve. The fair value of each finder's fee warrant has been estimated as of the date of the issuance using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 1.15%, dividend yield of 0%, volatility of 102% and expected life of two years.

ii) The Company issued 519,996 shares with a fair value of $60,600 as part of option payments relating to portions of the Sixty Mile Property and issued 50,000 shares with a fair value of $4,750 for an option payment relating to the Rivier Property (Note 8).

From the date of incorporation on September 20, 2011 to December 31, 2011, the Company issued common shares as follows:

i) On September 20, 2011, the Company issued 1 incorporator's common share for $1.00.

ii) On December 8, 2011, the Company issued as consideration for the Arrangement, 36,067,625 common shares and 36,067,625 share purchase warrants. The fair value of the assets received from the Arrangement of $6,176,467 was fully attributed to the common shares issued. Share capital was reduced by share issuance costs totaling $13,073. Included in the $6.176 million of assets received was $4,527,717 relating to evaluation and exploration assets which were prorated to the mineral property interests acquired based on level of exploration activity on those interests. This arrangement was a non-cash transaction.

## 10. SHARE CAPITAL AND RESERVES *(cont'd)*

### (b) Share Purchase Warrants

The following is a summary of changes in warrants for the period of incorporation on September 20, 2011 to December 31, 2012:

| | Number of warrants | Weighted average exercise price |
|---|---:|---:|
| Balance, at incorporation on September 20, 2011 | - | - |
| Issued | 36,067,625 | $0.30 |
| Balance, December 31, 2011 | 36,067,625 | $0.30 |
| Issued | 7,171,875 | $0.10 |
| **Balance, December 31, 2012** | **43,239,500** | **$0.27** |

As at December 31, 2012, the following share purchase warrants were outstanding:

| Expiry Date | Number of warrants | Exercise price |
|---|---:|---:|
| June 8, 2013 | 36,067,625 | $0.30 |
| October 10, 2014 | 7,171,875 | $0.10 |
| | **43,239,500** | |

### (c) Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's statement of financial position include 'Other equity reserve', 'Deficit' and 'Accumulated other comprehensive income/loss'.

Other equity reserve is used to recognize the value of stock option grants and share purchase warrants prior to exercise.

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

Accumulated other comprehensive loss/income comprises an available-for-sale reserve. This reserve is used to recognize fair value changes on available-for-sale investments.

## 11. SHARE-BASED PAYMENTS

### Option Plan Details

The Company has in place a stock option plan (the "Plan") which allows the Board of Directors to grant incentive stock options to the Company's officers, directors, employees and consultants. The exercise price of stock options granted is determined by the Board of Directors at the time of the grant in accordance with the terms of the Plan and the policies of the TSX-V. Options vest on the date of granting unless stated otherwise. Options granted to investor relations consultants vest in accordance with TSX-V regulation. The options are for a maximum term of ten years.

The following is a summary of changes in options for the year ended December 31, 2012:

| | | | During the year | | | | |
|---|---|---|---|---|---|---|---|
| **Expiry date** | **Exercise price** | **Opening balance** | **Granted** | **Exercised** | **Forfeited / cancelled** | **Closing balance** | **Vested and exercisable** |
| July 19, 2022 | $0.15 | - | 1,320,000 | - | - | 1,320,000 | 1,320,000 |
| **Weighted average exercise price** | | **-** | **$0.15** | **-** | **-** | **$0.15** | **$0.15** |

There were no stock options granted or outstanding during the period from incorporation on September 20, 2011 to December 31, 2011.

### Fair Value of Options Issued During the Year

The weighted average fair value at grant date of options granted during the year ended December 31, 2012 was $0.105 per option.

The weighted average remaining contractual life of the options outstanding at December 31, 2012 is 9.81 years.

*Options Issued to Employees*

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

*Options Issued to Non-Employees*

Options issued to non-employees are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted using the Black-Scholes option pricing model.

The model inputs for options granted during the year ended December 31, 2012 included:

| **Grant date** | **Expiry date** | **Share price at grant date** | **Exercise price** | **Risk-free interest rate** | **Expected life** | **Volatility factor** | **Dividend yield** |
|---|---|---|---|---|---|---|---|
| July 20, 2012 | July 19, 2022 | $0.11 | $0.15 | 1.61% | 10 years | 126% | 0% |

## 11. SHARE-BASED PAYMENTS *(cont'd)*

### Fair Value of Options Issued During the Period *(cont'd)*

The expected volatility is based on an average of historical prices of a comparable group of companies within the same industry due to the lack of historical pricing information for the Company. The risk free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

### Expenses Arising from Share-based Payments Transactions

Total expenses arising from the share-based payment transactions recognized during the year ended December 31, 2012 as part of share-based compensation were $137,951 (2011: $Nil).

As of December 31, 2012, there was no unrecognized compensation costs related to share-based payment awards not yet exercisable.

### Amounts Capitalized Arising from Share-based Payments Transactions

Share-based payment transactions that were capitalized during the year ended December 31, 2012 as part of exploration and evaluation acquisition costs were $65,350 (Note 10(a(ii)).

## 12. EXPLORATION EXPENDITURES

During the year ended December 31, 2012, the Company incurred the following exploration expenditures:

| | **Scarlet** | **Scarlet** | | | | | **Ten Mile** | **Yukon** | |
|---|---|---|---|---|---|---|---|---|---|
| | **West** | **East** | **Sixty Mile** | **Face** | **Newt** | **Iola** | **Creek** | **General** | **Total** |
| Assays | $ 62,683 | $ - | $ 2,448 | $ 53,709 | $ - | $ 11,346 | $ - | $ - | $ 130,186 |
| Camp Expenses | 105,757 | - | 1,755 | 25,360 | - | 19,814 | - | - | 152,686 |
| Field Expense | 66,687 | - | 1,089 | 46,486 | - | 9,545 | - | 1,827 | 125,634 |
| Geological Fees | 56,708 | 12,555 | 39,453 | 42,769 | 8,815 | 16,822 | 41,083 | 19,511 | 237,716 |
| Geophysical | 542 | - | 9,321 | - | - | - | | - | 9,863 |
| Licenses and taxes | 12,020 | - | 10,004 | 3,339 | - | 522 | - | 320 | 26,205 |
| Office and administration | 1,401 | - | 93 | 559 | - | 948 | 167 | 263 | 3,431 |
| Shipping | 5,955 | - | 342 | - | - | 550 | - | - | 6,847 |
| Travel | 26,583 | 120 | 3,812 | 63,651 | - | 8,037 | - | - | 102,203 |
| Vehicles | 13,593 | - | 4,026 | 10,506 | - | 10,306 | - | - | 38,431 |
| **Balance, end of year** | **$ 351,929** | **$ 12,675** | **$ 72,343** | **$ 246,379** | **$ 8,815** | **$ 77,890** | **$ 41,250** | **$ 21,921** | **$ 833,202** |

There were no exploration expenditures incurred during the period from incorporation on September 20, 2011 to December 31, 2011.

## 13. INCOME TAXES

Taxation in the Company is calculated at the rate prevailing in its jurisdiction. The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

| | **December 31, 2012** | **December 31, 2011** |
|---|---|---|
| Profit/(loss) before incomes taxes | $ (1,856,402) | $ (31,396) |
| Tax charge/(recovery) based on the statutory rate of 25% (2011: 26.5%) | (464,000) | (8,000) |
| Non-taxable portion of capital losses | 47,000 | (7,000) |
| Non-deductible items | 35,000 | - |
| Share issue costs and other | (5,000) | (3,000) |
| Changes in unrecognized deferred tax assets | 387,000 | 18,000 |
| **Total income tax expense / (recovery)** | **$ -** | **$ -** |

Effective January 1, 2012, the Canadian Federal corporate tax rate decreased from 16.5% to 15% and the British Columbia provincial tax rate stayed at 10%.

No deferred tax asset has been recognized in respect of the following losses and temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered:

| | **December 31, 2012** | **December 31, 2011** |
|---|---|---|
| Loss carry forwards | $ 92,000 | $ 8,000 |
| Available-for-sale investments | 40,000 | 7,000 |
| Share issue costs and other | 9,000 | 3,000 |
| Mineral properties | 264,000 | - |
| Unrecognized deferred tax assets | (405,000) | (18,000) |
| **Deferred tax assets** | **$ -** | **$ -** |

As at December 31, 2012, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years.

Non-capital Canadian tax losses expiring as follows:

| **Year of expiry** | **Taxable losses** |
|---|---|
| 2031 | $ 21,000 |
| 2032 | 350,000 |
| | **$ 371,000** |

## 14. RELATED PARTY TRANSACTIONS

The Company's related parties with transactions during the year ended December 31, 2012 consist of directors, officers and companies with common directors as follows:

| **Related party** | **Nature of transactions** |
|---|---|
| Radius Gold Inc. ("Radius") | Shared office, administrative and exploration related charges |
| Gold Group Management Inc. ("Gold Group") | Shared office, administrative and exploration related charges |
| Mill Street Services Ltd. ("Mill Street") | Management services |

Balances and transactions with related parties not disclosed elsewhere in these financial statements are as follows:

a) During the year ended December 31, 2012, the Company reimbursed Radius, a company with common directors and officers, $54,932 (2011: $Nil) in exploration related costs and a total of $95,114 (2011: $8,665) in general and administrative expenses consisting of $37,719 (2011: $3,746) in office and administration, $9,428 (2011: $3,000) in public relations, $40,502 (2011: $1,699) in salary and benefits, $3,413 (2011: $65) in transfer agent and regulatory, and $4,052 (2011: $155) in travel and accommodation costs. Salary and benefits costs include those for the Vice President Corporate Development, Chief Financial Officer, and Corporate Secretary. In addition, $3,778 (2011: $15,282) of leasehold improvement costs was paid by Radius on behalf of the Company. Radius is reimbursed by the Company for these shared costs and other business related expenses paid by Radius on behalf of the Company. The cost-sharing arrangement with Radius terminated effective June 30, 2012.

b) During the year ended December 31, 2012, the Company reimbursed Gold Group, a company controlled by the Chief Executive Officer of the Company, $47,296 (2011: $Nil) in exploration related costs and a total of $121,776 (2011: $Nil) in general and administrative expenses consisting of $48,475 (2011: $Nil) in office and administration, $4,634 (2011: $Nil) in public relations, $61,528 (2011: $Nil) in salary and benefits, $1,836 (2011: $Nil) in transfer agent and regulatory, and $5,303 (2011: $Nil) in travel and accommodation costs. Salary and benefits costs include those for the Vice President Corporate Development, Chief Financial Officer, and Corporate Secretary. Effective July 1, 2012, Gold Group is reimbursed by the Company for these shared costs and other business related expenses paid by Gold Group on behalf of the Company.

c) Prepaid expenses and deposits include an amount of $61,000 (December 31, 2011: $Nil) paid to Gold Group as a deposit on the shared office and administrative services agreement that is effective July 1, 2012 and $7,611 (December 31, 2011: $Nil) paid to Gold Group for prepaid expenses.

d) Amounts due to related parties as of December 31, 2012 consist of $22,444 (December 31, 2011: $Nil) due to Gold Group and $17,539 (December 31, 2011: $23,947) due to Radius. The balance due to Gold Group is collateralized by a deposit and the amount due to Radius is unsecured and due on demand. The amounts due do not bear interest.

These transactions are measured at the fair value of the services rendered.

## 14. RELATED PARTY TRANSACTIONS *(cont'd)*

### Key management compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management compensation comprises:

| | | Year ended December 31, 2012 | | For the period from incorporation on September 20, 2011 to December 31, 2011 |
|---|---|---|---|---|
| Management fees | $ | 31,500 | $ | - |
| Salaries and benefits | | 20,510 | | 1,302 |
| Share-based payments | | 47,029 | | - |
| | **$** | **99,039** | **$** | **1,302** |

Total share-based payments to directors not specified as key management personnel during the year ended December 31, 2012 was $23,514 (2011: $Nil).

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed 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.

### 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, whilst 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 periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(cont'd)*

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 affecting the Company are comprised of the following types of risk: interest rate risk and equity price risk.

*Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

*Equity Price Risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company's available-for-sale investments are exposed to significant equity price risk due to the potentially volatile and speculative nature of the businesses in which the available-for-sale investments are held. The common shares held in Cordoba, Solomon, and Voyager are monitored by Management with decisions on sale taken at Board level. A 10% decrease in fair value of the shares would result in a $34,100 decrease in equity.

b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and available-for-sale investments. The Company limits exposure to credit risk by maintaining its cash with chartered Canadian financial institutions. The Company does not have cash or available-for-sale investments that are invested in asset based commercial paper.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At December 31, 2012, the Company had cash of $629,217 available to apply against short-term business requirements, current liabilities of $73,734, and a flow-through expenditure commitment of $300,000. All of the Company's financial liabilities have contractual maturities of less than 45 days and are subject to normal trade terms.

**Determination of Fair value**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. All financial instruments at December 31, 2012 are carried at amortized cost, apart from the available-for-sale investments in public companies with shares in active markets of $330,000 which are carried at fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(cont'd)*

### Determination of Fair value *(cont'd)*

The Statement of Financial Position carrying amounts for cash, accounts payables and accrued liabilities, and due to related parties approximates fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

### 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:

| | |
|---|---|
| Level 1 | Unadjusted quoted prices in active markets for identical assets or liabilities; |
| Level 2 | Inputs other than quoted prices included in 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 | Inputs for the asset or liability that are not based on observable market data (unobservable inputs). |

The available-for-sale investments for Cordoba and Solomon are based on quoted prices and are therefore considered to be Level 1.

The available-for-sale investment in Voyager was recorded at fair value when it was received and is carried at cost due to Voyager being a private company with no quoted market prices available. This investment is considered to be Level 2 on initial recognition and carried at cost thereafter.

## 16. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to advance its mineral properties. The Company's defines its capital as cash, shares and warrants. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the Company's approach to capital management during the year. As at December 31, 2012, the Company is not subject to any externally imposed capital requirements. The Company does not expect its capital resources to be sufficient to cover its corporate operating costs and possible property option payments through the next twelve months. As such, the Company will seek to raise additional capital and believes it will be able to do so, but recognizes the uncertainty attached thereto.

## 17. SEGMENTED REPORTING

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities.

## 18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2012 and period from the date of incorporation on September 20, 2011 to December 31, 2011, no cash was paid for interest or income taxes.

### Non-cash transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

During the year ended December 31, 2012, the Company completed the following non-cash transactions:

a) Issued 243,750 units, consisting of 243,750 common shares and 121,875 share purchase warrants at $0.08 per unit, with a value of $19,500 for private placement finders' fees; and

b) Issued 243,750 share purchase warrants with a value of $6,045 for private placement finders' fees.

During the period from the date of incorporation on September 20, 2011 to December 31, 2011, the Company completed the following non-cash transaction:

a) The Company issued as consideration for the Arrangement, 36,067,625 common shares and 36,067,625 share purchase warrants. The fair value of the assets received from the Arrangement was $6,176,467 of which $1,000,000 was allocated to cash, $4,527,717 to evaluation and exploration assets and $648,750 to available-for-sale investments.

RACKLA
METALS INC

**(the "Company")**

# MANAGEMENT'S DISCUSSION AND ANALYSIS
# Year End Report – December 31, 2012

## General

This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the audited financial statements of the Company for the period ended December 31, 2012. The following information, prepared as of April 25, 2013, should be read in conjunction with the December 31, 2012 financial statements. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

## Forward Looking Information

This MD&A may contain "forward-looking statements" that reflect the Company's current expectations and projections about its future results. When used in this MD&A, words such as "will", "may", "should", "estimate", "intend", "expect", "anticipate" and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company's future operational or financial performance.

Forward-looking statements are statements that are not historical facts, and include but are not limited to:

a) Estimates and their underlying assumptions;
b) Statements regarding plans, objectives and expectations with respect to the effectiveness of the Company's business model, future operations, the impact of regulatory initiatives on the Company's operations, and market opportunities;
c) General industry and macroeconomic growth rates;
d) Expectations related to possible joint or strategic ventures; and
e) Statements regarding future performance.

Forward-looking statements used in this MD&A are subject to various risks, uncertainties and other factors, most of which are difficult to predict and generally beyond the control of the Company. These risks, uncertainties and other factors may include, but are not limited to unavailability of financing, failure to identify commercially viable mineral reserves, fluctuations in the market valuation for commodities, difficulties in obtaining required approvals for the development of a mineral project, and other factors.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks, uncertainties and other factors, including the risks, uncertainties and other factors identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by securities law.

**Business of the Company**

The Company was incorporated in September 2011 pursuant to a spin-out transaction (the “Spin-Out”) with Radius Gold Inc. (“Radius”) to create two strategically positioned companies, one focused on Latin America and the other focused on the Yukon. The Spin-Out was completed on December 8, 2011, and Radius’s interests in the Scarlet property, Sixty Mile area properties, Ten Mile Creek property, Rivier property, and other staked Yukon properties were transferred to the Company, together with $1.0 million in cash, and marketable securities consisting of 750,000 common shares of Solomon Resources Limited (“Solomon”) and 600,000 common shares of Cordoba Minerals Corp. (“Cordoba”) (formerly called Wesgold Minerals Inc.).

As a result of the Spin-Out, Radius shareholders received one common share and one warrant in the Company for every three Radius shares held and Radius also received common shares and warrants to hold a 19.9% ownership interest in the Company at the time of the Spin-Out. Each warrant entitles the holder to purchase one common share of the Company at $0.30 for a period of 18 months.

The current status of the Company’s properties is described below:

Scarlet Property, Rackla Belt Area

The Company owns 743 claims (15,520 hectares, 38,370 acres) in the Rackla Belt area, of which 230 claims comprise the Scarlet East property and 513 claims comprise the Scarlet West property.

*Scarlet East*

The Scarlet East property covers what is believed to be the eastern extension of the belt of rocks that host ATAC Resources’ Osiris and Conrad discoveries northeast of Keno City.

Mineralization in the Rackla belt shares many of the characteristics of Carlin-type gold deposits, including similar alteration assemblages and association with the low-temperature arsenic sulphides, realgar and orpiment. In the eastern part of the belt, host rocks are two 150-to-250-metre-thick limestone debris flow and turbidite units, referred to by Atac Resources as the Osiris and Isis horizons. Preliminary mapping over the Scarlet East property has identified similar carbonate stratigraphy and fold patterns.

Radius conducted an exploration program in the 2011 summer season to target both claim blocks with geochemical surveys (stream sediment, soil and rock sampling), airborne geophysics (magnetic and radiometrics) and geological mapping.

First pass geological mapping of the property was undertaken and ridge-and-spur soil samples and stream sediment samples were collected at the Scarlet East property. Results from this program were disclosed in Radius’s news releases of July 13 and 26, 2011. Based upon soil results anomalous in Au-As-Hg-Sb-Tl in an area of orange-weathering limestone, a full soil sampling grid based on 50 x 50 or 50 x 100 m sampling was undertaken on the Scarlet East property in August 2011. In total, over 8,700 soils were collected. Rock prospecting resulted in 164 rock samples, and a stream sediment survey resulted in 239 samples. Management is of the view that strongly anomalous values in all the major elements were confirmed in the soil sampling program.

In March 2012, the Company granted to Strategic Metals Ltd. (Strategic”) the option to acquire an undivided 60% interest in the Scarlet East claim block. Strategic can exercise the option by completing not less than 1,000 meters of drilling on or before December 31, 2012 (fulfilled), and incurring $5,000,000 in exploration expenditures on the property over a period of four years.

Strategic Metals Ltd. reported in a news release dated September 5, 2012 that mapping and drilling of the Scarlet East property identified favourable host rocks and several structurally complex zones that coincide with 2011 gold and arsenic soil geochemical anomalies. Although realgar was locally identified at surface within one of the soil anomalies no high gold values were returned from surface samples. A total of five holes (1,167.68 m) were drilled in the 2012 exploration season and no significant gold values were returned from drill core samples. Strategic is applying for mining land use permits for the 2013 field season and in order to keep the option agreement in good standing, Strategic is required to spend an aggregate of $1,500,000 on the property before December 31, 2014.

*Scarlet West*

A much more limited program of soils was undertaken later in the 2011 season on the Scarlet West property. Although the property was initially staked for its potential to host lode gold deposits, work and research by Radius identified its potential to also host significant high grade Pb-Zn replacement or Mississippi Valley Type deposits.

At Scarlet West, lead-zinc mineralization and geochemical soil anomalies are found on the margins of a lower dolomite unit and as replacements and fillings in steeply dipping and crosscutting fault structures. In the 1970's McIntyre Mines identified three mineralized occurrences (White Ridge, Chopper Pad and Discovery Zone), all in the same stratigraphic horizon along a nine kilometer strike length. McIntyre Mines also located an additional zone, Puddle Zone, in a lower horizon that extends for at least two kilometers. Radius discovered an additional zone, the Larry Zone, in 2011 that is controlled by a fault structure that can be traced for four km. Although McIntyre Mines diamond drilled eight small diameter holes (total 816.5 m) on the Puddle and Discovery Zones, neither the drill hole locations or results are available.

In 2011 Radius collected 1,136 soil samples and carried out a 306 line km aeromagnetic and radiometric survey over the south eastern side of the property. The property was also geologically mapped at a reconnaissance scale. In addition to confirming the lead-zinc potential of the property soil samples from the northern portion over the Larry and Puddle Zones, locally contained anomalous values for gold (up to 39 ppb), mercury, arsenic and thallium.

In April 2012, an additional 15 claims were staked after claims held by a competitor over the Chopper Pad Zone lapsed. Exploration consisting of soil and rock sampling, prospecting and geological mapping commenced in late June and was completed at the end of July, 2012. A total of 2,399 soil samples and 95 rock samples were collected following up on anomalous values in soil for gold, thallium, mercury, arsenic, lead and zinc reported in 2011 and extending the soil sample coverage.

Geochemical results from rock and soil samples returned significant anomalies for zinc from the southeast side of the property. A linear zinc in soil anomaly extending over four kilometers that includes both the Chopper Pad and Discovery Zones's was delineated. Most of the soil lines, spaced at 200 m, crossing the host carbonate horizon, contained two or more samples, spaced at 50 m, that contained >2,800 ppm to >10,000 ppm zinc. Coincident lead in soil anomalies range from 500 ppm to >1,000 ppm and several rock samples from the replaced carbonate mineralized horizon contained >2% zinc from highly leached and oxidized samples.

The White Ridge Zone, located on the northeast side of the property, has a gold in soil anomaly (>5 – 39 ppb) that was traced for 2 km to the east. Anomalous mercury values (>1,864 ppb) are restricted to the immediate area of the original carbonate hosted White Ridge Zone over an east-west strike length of one kilometer. Sporadic anomalous thallium values of >2 ppm are found within the White Ridge gold in soil anomaly. Expanded soil sample coverage over the Puddle Zone, located one kilometer north of the White Ridge Zone and also underlain by carbonates, identified a coincident arsenic (>63 ppm), antimony (>8 ppm), with sporadic anomalies for mercury (>911 ppb), arsenic (>62 ppm), silver (>563 ppb), lead (>106) and zinc (>1,110 ppm). This soil anomaly extends over a one kilometer east-west strike length, extends 500 m north-south, and is open to the west. Lead-zinc mineralization at the Larry Zone was confirmed to be restricted to silicified brecciated pods within or adjacent to an approximate east-west fault structure that intersects the west end of the White Ridge Zone.

No additional work is planned for the Scarlet West property at the present time and the claims are in good standing until 2017.

Sixty Mile Property

In early August 2012 and in April 2013, the Company terminated several of its options to acquire claims in the Sixty Mile area, Yukon Territory. Accordingly, the Sixty Mile Property currently consists of 701 claims (14,600 hectares, 36,075 acres) of which 638 claims are owned outright and the balance are under option. The 100% owned claims are in good standing until 2018 or later.

The property is a large land position covering the headwaters and drainage areas of the prolific Sixty Mile Gold Camp of the Yukon Territory which reportedly produced over 500,000 oz of gold from the creeks that drain the Company's holdings. The hard rock source for this placer gold has never been determined. The regional geology, geochemical signature and structural setting have similarities to the Jurassic age White Gold deposit and bedrock mineralization found in the Klondike district.

During 2011, a diamond drill program was completed by Radius consisting of 20 holes (5,273 metres). Sixteen holes tested the Graben Fault Zone in the Sixty Mile River Valley and four tested the Thrust Fault Zone. Significant gold bearing intervals are tabulated below.

| Zone | Hole ID | From (m) | To (m) | Length (m) | Au (g/t) |
|---|---|---|---|---|---|
| Graben | DDH11-08 | 193.50 | 194.50 | 1.00 | 19.00 |
| Graben | DDH11-10 | 249.00 | 250.50 | 1.50 | 132.90 |
| Graben | DDH11-14 | 32.00 | 33.00 | 1.00 | 5.17 |
| Thrust | DDH11-15 | 193.00 | 196.50 | 3.50 | 1.50 |
| Thrust | DDH11-15 | 233.17 | 251.05 | 17.88 | 0.44 |
| Thrust | including | 234.00 | 238.00 | 4.00 | 1.02 |
| Thrust | DDH11-18 | 88.00 | 193.30 | 105.30 | 0.51 |
| Thrust | including | 141.93 | 166.00 | 24.07 | 1.57 |
| Thrust | DDH11-19 | 224.50 | 228.60 | 4.10 | 1.84 |
| Thrust | DDH11-20 | 182.98 | 185.65 | 2.67 | 1.06 |
| Thrust | DDH11-20 | 201.78 | 202.75 | 0.97 | 1.79 |
| Thrust | DDH11-20 | 272.00 | 273.03 | 1.03 | 1.40 |

*The Thrust Fault Zone*

In 2010 Radius identified orogenic gold mineralization, likely of Jurassic age, within a package of northeast trending brittle siliciclastic metasediments cut by thrust faults (the “Thrust Fault Zone”). This area is likely one of the sources for the extensive placer gold deposits that has been mined from the creeks that cut this unit. The host units are extensive, and there are multiple beds of quartzite hosting cross cutting, gold bearing veins. In 2010 four core holes drill tested this unit and anomalous gold was encountered over down hole widths of up to 79 m. In 2011 diamond drill holes DDH11-15, 18, 19 & 20 also tested the Thrust Fault Zone.

Drill hole DDH11-15 targeted mineralization down dip of mineralization intersected in the upper portions of 2010 drill holes DDH10-1, 2 and 3. Sample results from hole 15 are similar to those received in 2010 including a 4.0 meter section (from 234.00 – 238.00 m) that graded 1023 ppb gold. In 2011 drill hole DDH11-18 targeted a competent, brittle fracturing, quartz rich unit intersected in 2010 by DDH10-3 that returned 160 ppb gold over 79.27 m . The drilling direction of DDH11-18 was close to right angles to that of DDH10-03 as the purpose of drill hole 18 was to intersect the quartz veins at a high angle compared to the low angles observed in drill core in 2010. Best results from DDH11-18 include 1.5 g/t Au over 24 meters (from 141.78 m – 166.00 m), where visible gold in quartz veins was observed, within a broader 105.30 m interval that graded 507 ppb (from 88.00 – 193.30 m).

Drill hole DDH11-19, located approximately 950 m northwest of DDH11-15, 18 and DDH10-1, 2 & 3, targeted resistivity and induced polarization (IP) anomalies. The best result was 1,837 ppb over 4.10 m (from 224.50 m – 228.60 m) from a quartz veined quartz rich schist unit.

Drill hole DDH11-20, targeted the thrust fault zone, at the Layfield Grid, where it crosses a ridge, approximately 2.1 km to the northeast of DDH11-19. Like DDH11-19, hole 20 targeted resistivity and IP anomalies. Best values included three narrow (0.97 m to 2.67 m) intervals of >1 g/t Au from a fault zone and sericite altered and silicified schist.

In April 2012, the Company received a report detailing the results of the geophysics (IP and EM) carried out over the area of the Thrust Fault Zone that was drill tested by Radius in 2011. The report concluded that the best drilling results obtained to date, 1.57 gpt Au over 24.07 m (141.93 m – 166.00 m) in DDH11-18, is found at the margin of a chargeable zone which is offset from a conductive zone. It is thought that this margin represents a contact or thrust plane which acted as a fluid contact. The report recommended that this contact be tested with additional drill holes along strike to the southeast. Samples from drill holes DDH11-19 and DDH11-20 contained significant gold and arsenic values and both holes were also drilled at the margins of chargeability/conductivity highs.

*The Graben Fault Zone*

The Graben Fault Zone is one of two bedrock gold discoveries zones identified by Radius. It is located on the edge of the Sixty Mile river valley where highly altered Carmacks volcanic rocks are in fault contact with much older gneissic rocks of the Fifty Mile Batholith and schist units of the Yukon Tanana Terrane. The volcanics are strongly altered over an 8 km long strike length, and largely buried beneath placer gold-bearing river gravels, presenting a significant challenge for drill targeting. The initial exploration program comprised of grid-based auger drilling to test the top of bedrock. Clays in the bedrock sample were then identified by short wave infrared spectroscopy, and a Controlled Source Audio Frequency Magneto-telluric (CSAMT) geophysical survey was also used to identify resistivity highs and lows for drill targeting.

In 2010, Radius drilled two holes at the Toni occurrence testing the volcanic rocks proximal to the fault zone. Both holes returned highly anomalous gold values over plus-50-metre intervals with narrower intervals of potentially ore-grade material (see Radius's news release dated Nov. 16, 2010). The initial 2011 drill holes (DDH11-01, 02, 03 and 06) targeted down dip and along strike of last year's hole DDH10-06 at the Toni occurrence, and while these holes returned erratic anomalous gold values with some narrow >1g/t Au intervals, the drilling did not identify potential for a bulk-tonnage gold target at the Toni occurrence.

Holes DDH11-08 and -09 tested the historic Per occurrence (see Radius's news release dated June 6, 2011) which lies within a zone of illite alteration that extends towards the east where holes DDH11-10 and 14 tested fault structures. DDH11-08 intersected strongly bleached and sericite altered Carmacks Group andesite crosscut by narrow dolomite pyrite veins that contained 19.0 g/t Au from 193.5 m to 194.5 m.

Drill hole DDH11-10, drilled 1.4 km east northeast of DDH11-08, intersected 132 g/t Au over 1.5 m from 249.0 – 250.5 m. The interval consisted of bleached, hematized and sericite altered quartz feldspar biotite schist cross cut by minor quartz/pyrite veins. The large scale of the alteration system which can be traced over an 8 km strike length, required that the 2011 drilling was very widely spaced in order to drill test several targets. While many of the holes returned disappointing results, especially the follow-up holes at the Toni occurrence, the high grade intercepts in holes DDH11-08 and 10 are potentially related to an alteration zone that can be traced for a distance of 2 km, requiring further follow up work. DDH11-14, collared approximately 400 m east of DDH11-10, intersected a 1.0 m interval of propylitic altered andesite with limonitic zones that graded 5172 ppb gold.

Holes DDH11-04, 05, 07, 11, 12 and 13 tested potential silica bodies outlined by the geophysical program but none of these geophysical anomalies proved to have merit as gold targets. DDH11-09, 16 and 17 did not return any significant gold values.

The Company received a geophysical report with initial results and conclusions of the CSAMT (Controlled Source Audio Frequency Magnetotelluric) survey that was carried out over the Graben Zone in 2011. Survey results, in addition to indicating complex geology and multiple structural trends, show that the Sixty Mile Fault is not a single structure but rather a broad number of broad shear zones, likely with some vertical movement. The central portion of the CSAMT grid, which roughly corresponds to the approximate area of the copper-molybdenum rock anomaly partly outlined by the auger drill samples on the same grid, contains a number of unexplained conductive contacts. Additional interpretative work is ongoing to determine how this fits with a porphyry target versus the original target of resistive (silica) gold bearing structures.

Bedrock sampling by auger drill in the overburden covered valley identified a northeast trending copper anomaly (>350 ppm Cu) over an approximate 1.5 km by 0.4 km area. Drill holes DDH11-03, 04 and 05 spaced 400 m to 500 m apart, within or near the bedrock copper-molybdenum anomaly, intersected a previously unmapped, variably sericite and potassium feldspar altered feldspar porphyry body. The porphyry contains widespread disseminated pyrite and is cut by pyrite +/- chalcophyrite-molybdenite bearing fractures and stockworks with silica-sericite alteration haloes. Disseminated molybdenite is also present. Broad zones of anomalous copper were intersected in these holes with DDH11-03 averaging 380 ppm copper over 294 m starting at 25.45 to the end of the drill hole and DDH11-05 averaging 538 ppm Cu over 268.5m from 8.8 m to end of drill hole. This porphyry yields a U-Pb zircon age of 68.0 +/- 0.6 Ma, similar to other copper – gold – silver mineralized systems identified in the Dawson Range, Yukon.

*Future Work*

The Company is actively seeking a joint venture partner to explore both the kilometre scale Graben Fault Zone, a Cu-Mo +/- Au Cretaceous porphyry target, and the Thrust Fault Zone, a Jurassic orogenic gold target.

Face Property

The Face property comprises 705 contiguous claims (14,730 hectares, 36,400 acres) in western Yukon, 8 km due east of Eagle, Alaska. The initial 94 claims were staked in 2010, centred on a government regional silt survey Au anomaly, located over carbonate rocks analogous to the Atac Resources' Rackla belt, and with a similar spatial relationship to the Dawson thrust.

A first pass reconnaissance ridge-and-spur soil sampling and stream sampling survey was undertaken by Radius in the summer of 2011 with 155 soils and 31 stream sediments collected on the western half of the property. Results define a roughly east-west striking zone with coincident Au-Ag-Tl-Hg-Sb-As-Pb-Cu anomalies, in both soils and stream sediments. Based upon these results, the claim block was increased to 270 claims in August 2011.

A magnetic airborne survey was carried out in late November 2011. The high resolution magnetic data, collected on lines flown at 200 m line spacing, highlights geological rock units and will continue to aid in future geological mapping and understanding the structural setting of the property. To date the aeromagnetic survey indicates that the underlying geology is more complex than shown on publicly available geology maps. Additional geological mapping is required to reconcile the aeromagnetic results with the geology.

The Company staked an additional 431 claims in April 2012, extending the claim block to the northeast. These claims cover prospective stratigraphy and stream drainages with anomalous gold +/- arsenic +/- antimony +/- mercury values in stream sediment samples reported by the Geological Survey of Canada. In June 2012, the Company purchased four claims from a competitor that were surrounded by the original Face claims.

In June and July 2012 reconnaissance ridge and spur soil sampling along with prospecting and mapping was carried out to extend the anomalous zones identified in 2011 and to follow up on anomalous stream sediment samples reported by the Geological Survey of Canada. A total of 1,922 soil samples, 83 stream sediment and 22 rock samples were collected. Geochemical results from the ridge and spur soil sampling highlighted three broad coherent, kilometer scale, silver in soil anomalies (>1.7 ppm - >10.0 ppm Ag). Within these broad silver anomalies are samples anomalous in gold (>18 ppb) and arsenic (>28 ppm). Most of the silver anomalies also have coincident anomalous values for thallium, antimony, mercury, antimony, lead and zinc. Gossanous areas were noted in some of the areas with anomalous silver values. Based on current mapping, most of the anomalies are underlain by siliciclastic rocks and minor limy rocks of the Road River Group.

*Future Work*

Additional work, consisting of soil grids and geological mapping, is required to complete property sample coverage and to follow up on the anomalous areas identified in 2012. This work will be a priority for the Company in 2013 of which the Company expects to use the majority of its $300,000 flow-through expenditure commitment.

Iola Claims

In late October 2011, Radius staked 80 claims (1,670 hectares, 4,130 acres) over a silver-base metal target, the Yukon Minfile, Iola occurrence. The Iola claims are located approximately 115 kilometres northeast of Whitehorse and are about 15 km from the South Canol Road. A short reconnaissance exploration program in June 2012 collected 439 soil, 19 rock and 3 stream sediment samples. It is an early stage property and geochemical results from the widespread samples show a coincident, northwest trending, silver, lead and thallium in soil anomaly over a 1 km by 1.5 km area in the center of the property. Forty of the soil samples contained silver values ranging between 3 ppm and 17 ppm. Twenty-eight soil samples, most from the west side of the property, returned between 10 - 92 ppb gold and one sample returned 1,097 ppb with most of these samples also containing anomalous arsenic values.

*Future Work*

A small program of reconnaissance geological mapping and geochemical surface sampling to follow-up on 2012 results is planned for 2013 of which the Company expects to use a portion of its $300,000 flow-through expenditure commitment.

Ten Mile Creek Property

The Company has an option to acquire a 100% interest in the Ten Mile Creek property, and in turn had granted to Solomon an option to earn a 51% interest in the property. In May 2012, the option to Solomon was terminated as Solomon had failed to make the required option payments to the Company.

The Ten Mile Creek property is comprised of 323 mineral claims (6,750 hectares, 16,680 acres) located approximately 30 kilometres north-northwest of the White Gold Property of Kinross Gold Corp. and 60 kilometres north of the Coffee Gold Project of Kaminak Gold Corp. Solomon has identified a number of gold in bedrock and soil anomalies within the property. Solomon's 2011 exploration program included expanded soil geochemical grids, airborne geophysics and geological mapping that demonstrated that the Jual Vein System is the surface expression of an extensive structurally controlled gold system that dominates the northernmost portion of the property and extends over an area 2,700 meters by 3,880 meters in size (see Solomon's September 19, 2011 news release). Previous work on this zone returned trench results of 1.6 grams/tonne (g/t) gold over 25 meters (including 11.1 g/t gold over three meters) and 1.0 g/t gold over 19 meters (including 8.5 g/t over 1.5 meters). Within this vein system are at least two discrete gold in soil geochemical anomalies, the Skukum and Jack London anomalies, which have gold values up to 1,436 ppb and 787 ppb respectively.

In addition Solomon has identified another gold in soil anomaly, the Klondike Kate Zone, located approximately four kilometers east of the Skukum Zone, that measures about 1,950 m by 800 m with gold values up to 698 ppb.

*Future Work*

At the present time the Company has no plans to carry out additional exploration work on the property and is seeking a joint venture partner to explore the property.

Rivier Property

The Company holds a 100% interest in the Rivier Property partly by staking and partly under an option agreement. Voyager Gold Corp. (“Voyager”), a private BC company, was in turn granted the option to acquire from the Company a 60% interest in the property. Voyager has to date issued to the Company 200,000 common shares of Voyager pursuant to its option agreement.

The Rivier claims are located 90 km southeast of Ross River, Yukon and cover an ultramafic body shedding anomalous gold values into stream sediments and soil. In 2011, Voyager completed a program of geological mapping and geochemical sampling followed by an airborne geophysical (magnetic and radiometrics) survey. Two zones of anomalous gold in soil, ranging from background to over 2,000 ppb Au, were identified. In 2012 Voyager intended to explore with an initial program of trenching and 500 m of diamond drilling exploration but poor market conditions precluded financing arrangements.

*Future Work*

Planned work by Voyager during 2013 consists of geological mapping and soil sampling to close off existing open gold in soil anomalies and complete sample coverage over prospective lithologies and suspected structures.

*Qualified Person: Roger Hulstein, B.Sc., a member of the Association of Professional Engineers and Geoscientists of British Columbia, is the Company’s Qualified Person as defined by National Instrument 43-101, and is responsible for the accuracy of the technical information in this MD&A.*

## Selected Financial Information

The following table provides financial results for the year ended December 31, 2012 and period from incorporation on September 20, 2011 to December 31, 2011:

| | **2012** | **2011** |
|---|---|---|
| | **($)** | **($)** |
| Exploration expenditures | 833,202 | - |
| General and administrative expenses | 483,118 | 31,396 |
| Net loss | 1,856,402 | 31,396 |
| Basic and diluted loss per share * | 0.05 | 0.00 |
| Total assets | 5,691,377 | 6,136,475 |
| Total liabilities | 133,734 | 60,726 |
| Shareholders’ equity | 5,557,643 | 6,075,749 |

* The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized to the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, however, this proved to be anti-dilutive. Basic and diluted loss per share are the same for the years presented. Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

The amount of total assets as of December 31, 2011 is due to the Spin-Out transaction completed on December 8, 2011. In addition to the $1.0 million in cash and available-for-sale investments with a December 31, 2011 value of $603,500 received by the Company, the fair value of the mineral properties transferred to the Company was deemed to be $4,527,717. This amount was capitalized as exploration and evaluation assets. The period from incorporation on September 20, 2011 to December 31, 2011 incurred no exploration expenditures and minimal general and administrative expenses.

## Selected Quarterly Information

The following table provides quarterly information for the period from incorporation on September 20, 2011 to December 31, 2012:

| **Quarter Ended** | **Dec. 31, 2012** | **Sep. 30, 2012** | **Jun. 30, 2012** | **Mar. 31, 2012** | **Dec. 31, 2011*** |
|---|---|---|---|---|---|
| | **($)** | **($)** | **($)** | **($)** | **($)** |
| Exploration expenditures (net) | 12,238 | 483,208 | 263,386 | 74,370 | - |
| General and administrative expenses | 123,376 | 226,368 | 82,907 | 50,467 | 31,396 |
| Net loss | 675,696 | 709,576 | 346,293 | 124,837 | 31,396 |
| Basic and diluted loss per share | 0.01 | 0.02 | 0.01 | 0.00 | 0.00 |

* Includes the period from incorporation on September 20, 2011 to December 31, 2011.

The quarter ended September 30, 2012 has recorded significantly higher general and administrative expenses compared to the other quarters presented due to a stock-based compensation expense of $137,951. Exploration expenditures increased in each quarter starting in the quarter ended March 31, 2012 until a peak was reached in the quarter ended September 30, 2012 which coincides with the end of the primary Yukon exploration season. Exploration expenditures were then reduced to a minimal amount for the next quarter as most activities cease for the winter season.

## Results of Operations

The quarter ended December 31, 2012 had a net loss of $675,696 compared to $31,396 for the quarter ended December 31, 2011, an increase of $644,300. The increase was mostly due to an impairment charge of $318,750 applied against available-for-sale investments and a write-off of exploration and evaluation assets of $221,332 during the current quarter. The comparative quarter did not record any such charges. The current quarter incurred minimal exploration expenses of $12,238 due to the Yukon winter season. There were no exploration expenditures incurred during the comparative quarter as the Spin-Out transaction had not occurred until towards the end of the quarter.

General and administrative expenses for the quarter ended December 31, 2012 were $123,376 compared to $31,396 for the quarter ended December 31, 2011, an increase of $91,980. General and administrative requirements were minimal during the comparative quarter and expenses were comprised primarily of legal and accounting. The current quarter reflects typical expenses for an active company including new expenses such as management fees and transfer agent and regulatory fees, and significant increases in costs such as office and administrative, salaries and benefits, and travel.

The net loss for the year ended December 31, 2012 was $1,856,402 compared to $31,396 for the period from incorporation on September 20, 2011 to December 31, 2011, an increase of $1,825,006. The significant increase in loss for the current year is due to the comparative period consisting of less than four months and that period having minimal activity. During the current year, the Company incurred exploration expenditures of $833,202 and general and administrative expenses of $483,118. As in the current quarterly period, the current year also recorded an impairment charge of $318,750 on available-for-sale investments and a write-off of exploration and evaluation assets of $221,332 which reduced the carrying cost of the Newt property to nil.

Most significant general and administrative costs for year ended December 31, 2012 involved share-based compensation of $137,951, salaries and benefits of $117,455, and office and administrative costs of $97,090. The share-based compensation expense, a non-cash item, resulted from the granting of stock options.

## Mineral Property Expenditures

During the year ended December 31, 2012, the Company incurred exploration costs in the Yukon totalling $833,202, with the majority of the costs being $351,929 on the Scarlet West property, $246,379 on the Face property, $77,890 on the Iola property, and $72,343 on the Sixty Mile property.

The most significant overall exploration costs for the year were $237,716 for geological fees, $152,686 for camp expenses, $130,186 for assaying, $125,634 for field expenses, and $102,203 on travel.

The Company incurred acquisition costs during the current year totalling $305,629 in cash and share payments of which $110,483 was on the Face property, $106,600 was on the Sixty Mile property, $75,000 was on the Ten Mile Creek property, $8,796 on the Scarlet property, and $4,750 on the Rivier property.

## Future Accounting Changes

The following new standards and interpretations have been issued by the IASB but are not yet effective:

*IFRS 9 Financial Instruments*

IFRS 9 is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

*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. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.* The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning January 1, 2013.

*IFRS 11 Joint Arrangements*

IFRS 11 requires a venturer 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 venturer 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 interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning January 1, 2013.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests 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 interests in other entities. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning January 1, 2013.

*IFRS 13 Fair Value Measurement*

IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs 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 IFRSs or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. Management has yet to assess the impact that IFRS 13 is likely to have on the Company’s financial statements.

No additional new standards, amendments and interpretations have been early adopted in these financial statements and there are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## Liquidity and Capital Resources

The Company is in the exploration stage and therefore has no cash flow from operations. The principal source of funds since incorporation has been the $1.0 million received upon completion of the Spin-Out in 2011 and a private placement closed during the current year which raised gross flow-through proceeds of $300,000 and gross non-flow-through proceeds of $849,000.

As at December 31, 2012, current assets were $1,073,515 of which $629,217 was cash and $341,000 was the fair value of available-for-sale investments. Current liabilities were $133,734, resulting in a working capital position of $939,781. Part of the non-flow-through proceeds of $849,000 raised during the year was used to settle current liabilities and the remainder is expected to be used for general working capital requirements going forward. The flow-through proceeds of $300,000 must be spent on eligible exploration activities and the Company has until December 31, 2013 to fulfill this commitment.

The Company does not expect its current capital resources to be sufficient to cover its corporate operating costs and possible property option payments through the next twelve months. As such, the Company will seek to raise additional capital and believes it will be able to do so, but recognizes the uncertainty attached thereto. Actual funding requirements may vary from those planned due to a number of factors, including the progress of property acquisition and exploration activity.

## Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to advance its mineral properties. The Company's defines its capital as cash, shares and warrants. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the Company's approach to capital management during the year. As at December 31, 2012, the Company is not subject to any externally imposed capital requirements.

## 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 the Company's yearend financial statements.

### 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, whilst 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 periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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 affecting the Company are comprised of the following types of risk: interest rate risk and equity price risk.

*Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

*Equity Price Risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company's available-for-sale investments are exposed to significant equity price risk due to the potentially volatile and speculative nature of the businesses in which the available-for-sale investments are held. The common shares held in Cordoba, Solomon, and Voyager are monitored by Management with decisions on sale taken at Board level. A 10% decrease in fair value of the shares would result in a $34,100 decrease in equity.

b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and available-for-sale investments. The Company limits exposure to credit risk by maintaining its cash with chartered Canadian financial institutions. The Company does not have cash or available-for-sale investments that are invested in asset based commercial paper.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At December 31, 2012, the Company had cash of $629,217 available to apply against short-term business requirements, current liabilities of $73,734, and a flow-through expenditure commitment of $300,000. All of the Company's financial liabilities have contractual maturities of less than 45 days and are subject to normal trade terms.

**Determination of Fair Value:**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. All financial instruments at December 31, 2012 are carried at amortized cost, apart from the available-for-sale investments in public companies with shares in active markets of $330,000 which are carried at fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amounts for cash, accounts payables and accrued liabilities, and due to related parties approximates fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

The Company has made the following designations of its financial instruments: cash as loans and receivables and accounts payable and accrued liabilities and due to related parties as other financial liabilities.

**Fair Value Hierarchy:**

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

| | |
|---|---|
| Level 1 | Unadjusted quoted prices in active markets for identical assets or liabilities; |
| Level 2 | Inputs other than quoted prices included in 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 | Inputs for the asset or liability that are not based on observable market data (unobservable inputs). |

The available-for-sale investments for Cordoba and Solomon are based on quoted prices and are therefore considered to be Level 1.

The available-for-sale investment in Voyager was recorded at fair value when it was received and is carried at cost due to Voyager being a private company with no quoted market prices available. This investment is considered to be Level 2 on initial recognition and carried at cost thereafter.

**Related Party Transactions**

The Company's related parties with transactions during the year ended December 31, 2012 consist of directors, officers and companies with common directors as follows:

| Related party | Nature of transactions |
|---|---|
| Radius Gold Inc. ("Radius") | Shared office, administrative and exploration related charges |
| Gold Group Management Inc. ("Gold Group") | Shared office, administrative and exploration related charges |
| Mill Street Services Ltd. ("Mill Street") | Management services |

During the year ended December 31, 2012, the Company reimbursed Radius, a company with common directors and officers, $54,932 (2011: $Nil) in exploration related costs and a total of $95,114 (2011: $8,665) in general and administrative expenses consisting of $37,719 (2011: $3,746) in office and administration, $9,428 (2011: $3,000) in public relations, $40,502 (2011: $1,699) in salary and benefits, $3,413 (2011: $65) in transfer agent and regulatory, and $4,052 (2011: $155) in travel and accommodation. Salary and benefits costs include those for the Vice President Corporate Development, Chief Financial Officer, and Corporate Secretary. In addition, $3,778 (2011: $15,282) of leasehold improvement costs was paid by Radius on behalf of the Company. Radius is reimbursed by the Company for these shared costs and other business related expenses paid by Radius on behalf of the Company. The cost-sharing arrangement with Radius terminated effective June 30, 2012.

During the quarter ended December 31, 2012, the Company reimbursed Radius a total of $13,999 (2011: $8,665) in general and administrative expenses consisting of $13,240 (2011: $3,746) in office and administration, $Nil (2011: $3,000) in public relations, $9 (2011: $1,699) in salary and benefits, $750 (2011: $65) in transfer agent and regulatory, and $Nil (2011: $155) in travel and accommodation.

During the year ended December 31, 2012, the Company reimbursed Gold Group, a company controlled by the Chief Executive Officer of the Company, $47,296 in exploration related costs and a total of $121,776 in general and administrative expenses consisting of $48,475 in office and administration, $4,634 in public relations, $61,528 in salary and benefits, $1,836 in transfer agent and regulatory, and $5,303 in travel and accommodation. Salary and benefits costs include those for the Vice President Corporate Development, Chief Financial Officer, and Corporate Secretary. Effective July 1, 2012, Gold Group, rather than Radius, is reimbursed by the Company for these shared costs and other business related expenses paid on behalf of the Company. As such, there were no transactions with Gold Group for the comparative year.

During the quarter ended December 31, 2012, the Company reimbursed Gold Group, $2,918 in exploration related costs and a total of $55,459 in general and administrative expenses consisting of $22,247 in office and administration, $902 in public relations, $26,700 in salary and benefits, $1,736 in transfer agent and regulatory, and $3,874 in travel and accommodation. There were no transactions with Gold Group for the comparative quarter.

Prepaid expenses and deposits include an amount of $61,000 (December 31, 2011: $Nil) paid to Gold Group as a deposit on the shared office and administrative services agreement that is effective July 1, 2012 and $7,611 (December 31, 2011: $Nil) paid to Gold Group for prepaid expenses.

Amounts due to related parties as of December 31, 2012 consist of $22,444 (December 31, 2011: $Nil) due to Gold Group for reimbursement of shared costs and $17,539 (December 31, 2011: $23,947) due to Radius for reimbursement of shared costs. The balance due to Gold Group is collateralized by a deposit and the amount due to Radius is unsecured and due on demand. The amounts due do not bear interest.

These transactions are in the normal course of operations and are measured at the fair value of the services rendered.

**Key management compensation**

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management compensation comprises:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Management fees | $ 10,500 | $ - | $ 31,500 | $ - |
| Salaries and benefits | 4,615 | 1,302 | 20,510 | 1,302 |
| Share-based payments | - | - | 47,029 | - |
| | **$ 15,115** | **$ 1,302** | **$ 99,039** | **$ 1,302** |

Total share-based payments to directors not specified as key management personnel during the year ended December 31, 2012 was $23,514 (2011: $Nil).

## Other Data

Additional information related to the Company is available for viewing at www.sedar.com.

## Share Position and Outstanding Warrants and Options

As at April 25, 2013, the Company had 50,493,872 common shares issued and outstanding and the following share purchase warrants and incentive stock options are currently outstanding:

**WARRANTS**

| No. of warrants | Exercise price | Expiry date |
|---|---|---|
| 36,067,625 | $0.30 | June 8, 2013 |
| 7,171,875 | $0.10 | October 10, 2014 |
| 43,239,500 | | |

**STOCK OPTIONS**

| No. of options | Exercise price | Expiry date |
|---|---|---|
| 1,320,000 | $0.15 | July 19, 2022 |

## 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 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.

The key areas of judgment applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

a) The application of the Company’s accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

If, after exploration and evaluation expenditure is capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, the Company carries out an impairment test at the cash generating unit or group of cash generating units level in the year the new information becomes available.

b) The Company has not recognized a deferred tax asset as management believes that it is not probable that taxable profit will be available against which a deductible temporary difference can be utilized.

c) The determination of when an investment is impaired required significant judgment. In making this judgment, the Company evaluates, amongst other things, the duration and extent to which the fair value of the investment is less that its original cost at each reporting period.

The key estimate applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

a) The provision for income taxes and recognition of deferred income tax assets and liabilities.

## **Risks and Uncertainties**

### *Mineral Property Exploration and Mining Risks*

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company’s properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that option agreements, claims and leases are in good standing; and obtaining permits for drilling and other exploration activities.

### *Joint Venture Funding Risk*

The Company’s strategy includes seeking partners through joint ventures to fund exploration and project development. The main risk of this strategy is that funding partners may not be able to raise sufficient capital in order to satisfy exploration and other expenditure terms in a particular joint venture agreement. As a result, exploration and development of one or more of the Company’s property interests may be delayed depending on whether the Company can find another partner or has enough capital resources to fund the exploration and development on its own.

### *Commodity Price Risk*

The Company is exposed to commodity price risk. Declines in the market price of gold, base metals and other minerals may adversely affect the Company’s ability to raise capital or attract joint venture partners in order to fund its ongoing operations. Commodity price declines could also reduce the amount the Company would receive on the disposition of one of its mineral properties to a third party.

### *Financing and Share Price Fluctuation Risks*

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company’s projects may be dependent upon the Company’s ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Securities markets have at times in the past experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be exploration stage companies such as the Company, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on the Company’s ability to raise additional funds through equity issues.

### *Political and Regulatory Risks*

The Company is currently operating in Canada which has a stable political and regulatory environment. However, changing political aspects may affect the regulatory environment in which the Company operates.

*Insured and Uninsured Risks*

In the course of exploration, development and production of mineral properties, the Company is subject to a number of hazards and risks in general, including adverse environmental conditions, operational accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in damage to the Company's properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability and result in increased costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

*Environmental and Social Risks*

The activities of the Company are subject to environmental regulations issued and enforced by government agencies. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present. Social risks are considered low in Canada, the principal country of operation of the Company, but a change in social expectations could add new layers of risk to the viability of exploration and development properties.

*Competition*

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.