(formerly Alexis Minerals Corporation)

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2012 and 2011

(expressed in Canadian dollars)

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of QMX Gold Corporation:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had continuing losses during the year ended December 31, 2012 and a deficit and working capital deficiency as at December 31, 2012. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 25, 2013

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QMX GOLD CORPORATION (formerly Alexis Minerals Corporation)

Annual Consolidated Statements of Financial Position

in Canadian dollars

	Notes	December 31, 2012	December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents		$ 1,035,587	$ 1,615,261
Amounts receivable	7	914,544	816,520
Tax credit receivable	8	1,552,475	2,000,379
Inventories	9	2,938,031	2,644,737
Prepaid expenses	10	1,872,951	1,140,259
Investments	11	8,460	44,850
Total current assets		8,322,048	8,262,006
Non-current assets:			
Deposits and advances		-	500,000
Shares received or in escrow to be received	13	4,200,000	-
Restricted cash equivalents	13, 18	5,767,000	5,767,000
Property, plant and equipment	12	14,116,424	13,889,831
Mineral properties and deferred exploration expenditures	13	73,449,980	95,837,182
TOTAL ASSETS		$ 105,855,452	$ 124,256,019
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	14	$ 11,113,676	$ 13,819,183
Current portion of finance lease obligations	15	6,287	89,499
Short-term loan	16	14,126,430	-
Current portion of convertible debenture liability	17	-	2,000,285
Total current liabilites		25,246,393	15,908,967
Non-current liabilities:			
Finance lease obligations	15	-	6,302
Liability component of convertible debenture	17	4,171,819	3,980,391
Provision for closure and reclamation	18	6,336,000	18,956,000
Total liabilities		35,754,212	38,851,660
Equity:			
Share capital	1, 19	132,943,573	132,521,420
Commitment to issue shares	21	148,150	148,150
Equity component of convertible debenture	1, 17	1,512,541	1,698,516
Share-based payments reserve	1, 20	4,383,150	6,413,218
Transaction with owners	21	100,845	100,845
Accumulated deficit		(68,987,019)	(55,477,790)
Total equity		70,101,240	85,404,359
TOTAL LIABILITIES AND EQUITY		$ 105,855,452	$ 124,256,019

	Notes
Nature of operations and going concern	1
Commitments and contingencies	13, 29
Subsequent events	30

Approved on behalf of the Directors:

"David Rigg"
Director

"Maurice Colson"
Director

QMX GOLD CORPORATION (formerly Alexis Minerals Corporation)

Annual Consolidated Statements of Operations and Comprehensive (Loss)

in Canadian dollars

	Notes	Year ended December 31, 2012	2011
Revenue, net of royalties		**$ 30,886,197**	$ 15,544,263
Mine operating expenses		**(30,427,739)**	(22,638,376)
Depletion and depreciation		**(5,412,390)**	(3,394,378)
Total operating expenses		**(35,840,129)**	(26,032,754)
Gross (loss)		**(4,953,932)**	(10,488,491)
Expenses			
Professional, consulting and management	20	**(2,371,773)**	(2,541,133)
Other general and administrative expenses		**(725,978)**	(942,361)
Other gains and (losses)	22	**2,537,967**	(298,448)
Finance income		**59,778**	118,855
Finance costs	23	**(4,290,284)**	(1,070,984)
Loss on disposal of mineral properties	13	**(761,493)**	-
Impairment charge on mineral properties	13	**(5,658,375)**	(486,151)
(Loss) before income tax		**(16,164,090)**	(15,708,713)
Deferred income tax recovery	25	**-**	2,065,084
Net (loss) and comprehensive (loss) for the year		**$ (16,164,090)**	$ (13,643,629)
Net (loss) per share			
Basic	1, 24	**$ (0.54)**	$ (0.53)
Diluted	1, 24	**$ (0.54)**	$ (0.53)
Weighted average number of shares outstanding:			
Basic	1, 24	**29,948,648**	25,987,111
Diluted	1, 24	**29,948,648**	25,987,111

- See accompanying notes to the annual consolidated financial statements -

QMX GOLD CORPORATION (formerly Alexis Minerals Corporation)

Annual Consolidated Statements of Cash Flows

in Canadian dollars

	Notes	Year ended December 31, 2012	2011
Cash provided by (used in) operating activities:			
Net (loss)		**$ (16,164,090)**	$ (13,643,629)
Items not involving cash:			
Stock-based compensation	20	**18,909**	562,178
Depletion and depreciation		**5,412,390**	3,394,378
Non-cash (gains)/losses on marketable securities	22	**(2,413,610)**	270,897
Accretion and financing costs	23	**4,163,598**	856,828
Unrealized foreign exchange (gain)/loss		**(172,711)**	-
Impairment charge on mineral properties	13	**5,658,375**	486,151
Loss on sale of mineral properties	13	**761,493**	-
Deferred income tax recovery		**-**	(2,065,084)
Working capital adjustments:			
Change in receivables		**(263,024)**	(158,559)
Change in prepaid expenses		**(318,422)**	(1,341,366)
Change in inventories		**(141,325)**	(624,049)
Change in payables and provisions		**568,604**	2,970,368
Net cash (used in) operating activities		**(2,889,813)**	(9,291,887)
Investing activities			
Investment in mineral properties and deferred exploration expenditures		**(6,574,312)**	(19,669,983)
Property, plant and equipment expenditures		**(2,573,319)**	(2,054,536)
Working capital adjustments related to investing activities		**(3,193,211)**	1,525,612
Exploration tax credits received	8	**629,622**	3,092,672
Cash proceeds from sale of mineral properties	13	**5,000,000**	-
Cash proceeds from sale of investments	11	**-**	325,369
Net cash (used in) investing activities		**(6,711,220)**	(16,780,866)
Financing activities			
Public offering		**-**	20,125,000
Cost of issue		**-**	(1,622,926)
Short term loans	16	**28,322,250**	-
Financing costs and prepaid interest on short term loans	16	**(6,030,476)**	-
Retirement of short term loans	16	**(10,950,000)**	-
Payment of convertible debenture and accrued interest		**(2,230,901)**	-
Long-term debt payments		**-**	(51,333)
Finance lease payments		**(89,514)**	(173,616)
Net cash provided by financing activities		**9,021,359**	18,277,125
Change in cash and cash equivalents		**(579,674)**	(7,795,628)
Cash and cash equivalents, beginning of the year		**1,615,261**	9,410,889
Cash and cash equivalents, end of the year		**$ 1,035,587**	$ 1,615,261
Cash and cash equivalents are comprised of:			
Cash in bank		**$ 1,005,587**	$ 1,585,261
Cash equivalents		**$ 30,000**	$ 30,000
Non-cash investing and financing transactions			
Common shares issued for interest payment	17	**$ 422,153**	$ 208,770
Broker warrants charged as share issue costs	19	**$ -**	$ 449,200
Warrants issued for financing	16	**$ 390,340**	$ 64,800
Accretion of convertible debentures charged to mineral properties	17	**$ 152,115**	$ 173,464
Depreciation charged to mineral properties	12	**$ 322,547**	$ 322,339
Shares received as consideration for sale of mineral property	13	**$ 1,750,000**	$ -
Equipment acquired under finance leases		**$ -**	$ 81,705
Stock-based compensation charged to mineral properties	20	**$ 9,989**	$ 113,630
Interest paid		**$ 1,665,631**	$ 415,937

- See accompanying notes to the annual consolidated financial statements -

QMX GOLD CORPORATION (formerly Alexis Minerals Corporation)

Annual Consolidated Statements of Changes in Equity

in Canadian dollars

	Share capital		Commitment to issue shares	Equity Component of Convertible debenture	Share-based payments reserve	Transaction with owners	Accumulated Deficit	Total equity
	No.	$	$	$	$	$	$	$
Balance, December 31, 2011	29,682,284	132,521,420	148,150	1,698,516	6,413,218	100,845	(55,477,790)	85,404,359
Stock-based compensation	-	-	-	-	28,898	-	-	28,898
Value of warrants granted for bridge loan	-	-	-	-	390,340	-	-	390,340
Change in value of warrants on re-pricing	-	-	-	-	19,580	-	-	19,580
Expiry of stock options and warrants	-	-	-	-	(2,468,886)	-	2,468,886	-
Shares issued in lieu of interest payment	397,716	422,153	-	-	-	-	-	422,153
Equity component of convertible debenture repaid	-	-	-	(185,975)	-	-	185,975	-
Adjustment for rounding on consolidation	(13)	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-	(16,164,090)	(16,164,090)
Balance, December 31, 2012	**30,079,987**	**132,943,573**	**148,150**	**1,512,541**	**4,383,150**	**100,845**	**(68,987,019)**	**70,101,240**
Balance, December 31, 2010	19,527,764	114,257,612	150,314	1,698,516	8,282,045	100,845	(44,892,795)	79,596,537
Public offering	10,062,500	20,125,000	-	-	-	-	-	20,125,000
Value of broker warrants granted on public offering	-	(449,200)	-	-	449,200	-	-	-
Value of warrants granted for bridge loan	-	-	-	-	64,800	-	-	64,800
Shares issued in lieu of interest payment	91,646	208,770	-	-	-	-	-	208,770
Shares issued on tender of Garson shares	178	2,164	(2,164)	-	-	-	-	-
Stock-based compensation	-	-	-	-	675,807	-	-	675,807
Expiry of stock options and warrants	-	-	-	-	(3,058,634)	-	3,058,634	-
Share issue costs	-	(1,622,926)	-	-	-	-	-	(1,622,926)
Loss for the year	-	-	-	-	-	-	(13,643,629)	(13,643,629)
Balance, December 31, 2011	**29,682,089**	**132,521,420**	**148,150**	**1,698,516**	**6,413,218**	**100,845**	**(55,477,790)**	**85,404,359**

-See accompanying notes to the annual consolidated financial statements -

1. Nature of operations and going concern

Alexis Minerals Corporation changed its name to QMX Gold Corporation after receiving shareholder approval at its annual general meeting on June 13, 2012. QMX Gold Corporation ("QMX" or the "Company") currently has interests in mineral exploration and evaluation properties in the province of Québec and, through its 100% owned subsidiary, Garson Gold Corp. ("Garson"), in the province of Manitoba. The Company is in commercial production at the Lac Herbin deposit and is also continuing to focus on the exploration and evaluation of its other gold and base metal projects within these regions. The registered head office of the Company is located at 65 Queen Street West, Suite 815, Toronto, Ontario, Canada.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration and evaluation programs will result in profitable mining operations. The recoverability of the carrying value of mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

The Company's shares are listed on the Toronto Stock Exchange ("TSX"). They began trading under the new trading symbol "QMX-TO" on July 3, 2012 after receiving approval from the TSX. The Company also consolidated its issued and outstanding common shares on the basis of one new common share of the Company for every twenty existing common shares of the Company. All common shares, options, warrants and per share amounts have been restated to give retroactive effect to the share consolidation.

These annual consolidated financial statements of the Company for the years ended December 31, 2012 and 2011 were approved and authorized for issue by the Board of Directors on March 25, 2013.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

The Company has a need for equity capital and financing for working capital and exploration and evaluation of its properties. Because of continuing operating losses and a working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

2. Basis of preparation

These annual consolidated financial statements of the Company and its subsidiary were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

The preparation of financial statements in accordance with International Account Standards ("IAS") 1, Presentation of Financial Statements, requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as held-for-trading, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

3. Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2013 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded thereof.

3. Future accounting changes (continued)

IFRS 9, Financial Instruments ("IFRS 9") was issued November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2015, with early adoption permitted. The Company has not yet determined the potential impact of the amendments to IFRS 9 on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27, Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning January 1, 2013. The Company has not yet determined the impact of IFRS 10 on its consolidated financial statements.

IFRS 11, Joint Arrangements ("IFRS 11") replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previously jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11, joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairment of Assets. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning January 1, 2013. The Company has not yet determined the impact of IFRS 11 on its consolidated financial statements.

On May 12, 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"). This IFRS requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of these new standards and amendments on its consolidated financial statements.

IFRS 13, Fair Value Measurement ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the impact of IFRS 13 on its consolidated financial statements.

IAS 1, Presentation of Financial Statements ("IAS 1"), has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012. The Company has not yet determined the impact of the amendments to IAS 1 on its financial statements.

4. Principles of consolidation

The annual consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiary, Garson, as well as its proportionate share of the accounts of the joint ventures in which the Company has an interest.

Subsidiaries
Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

Business Combinations and Goodwill
On the acquisition of a subsidiary, the purchase method of accounting is used to account for the acquisition as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date except for non-current assets that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations*,* which are recognized and measured at fair value less costs to sell;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in profit or loss;
- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is preformed with subsequent changes in the fair value recorded through the consolidated statements of operations and comprehensive income/(loss).

All material intercompany transactions are eliminated on consolidation. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized and is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The level at which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal purposes, but shall not be larger than an operating segment determined in accordance with IFRS 8, Operating Segments. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Transactions and non-controlling interests
Transactions with non-controlling interests are treated as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between the consideration paid and the non-controlling share of the carrying value of net assets acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are similarly computed and also recorded in equity.

5. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

5. Significant accounting judgments, estimates and assumptions (continued)

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Assets' carrying values and impairment charges
  In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Capitalization of exploration and evaluation costs
  Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 13 for details of capitalized exploration and evaluation costs.

- Tax credits receivable
  The Company receives assistance in the form of refundable tax credits from the Québec provincial government. The Company estimates the amounts recoverable based on the relevant tax laws and recognizes a current asset, applying the credits against the mineral exploration properties to which they apply. Such estimates are subject to change based on changes in laws and regulations.

- Mineral reserve estimates
  The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

- Impairment of mineral properties and deferred exploration expenditures
  While assessing whether any indications of impairment exist for mineral properties and deferred exploration expenditures, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral properties and deferred exploration expenditures. Internal sources of information include the manner in which mineral properties and deferred exploration expenditures are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties and deferred exploration expenditures.

- Estimation of decommissioning and restoration costs and the timing of expenditure
  The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

5. Significant accounting judgments, estimates and assumptions (continued)

- Income taxes and recoverability of potential deferred tax assets
  In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments
  Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Contingencies
  Refer to Note 29.

6. Significant accounting policies

Foreign currency translation
In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Foreign exchange gains and losses are presented in the consolidated statement of operations and comprehensive (loss) within "other gains and (losses)".

The functional currency of the Company and its subsidiary is the Canadian dollar.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

6. Significant accounting policies (continued)

Revenue recognition
Metal sales
Revenue from the sale of metals is recognized when all of the following conditions are satisfied:

- the specific risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue
Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Share-based payments
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payment note.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For those options that expire after vesting, the recorded value is transferred to deficit.

Finance costs
Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

Company as lessee
Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

6. Significant accounting policies (continued)

Taxation
Current tax
Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Mineral properties and deferred exploration expenditures
Exploration and evaluation properties
Once a license to explore an area has been secured, expenditures on exploration and evaluation activities, net of government assistance received, are capitalized to mineral properties and deferred exploration. Deferred exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within mineral properties and deferred exploration expenditures.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

Development
When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to construction are capitalized as construction-in-progress and classified as a component of mineral properties and deferred exploration expenditures. Costs associated with the commissioning of new assets, in the period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues.

6. Significant accounting policies (continued)

Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

When a mine construction project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions or improvements, underground mine development or mineable reserve development.

Depletion/depreciation/amortization
Accumulated mine development costs are depleted on a unit-of-production basis over the estimated economically recoverable reserves of the mine concerned.

Property, plant and equipment
Items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

Depreciation/amortization
Property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives as follows:

- Buildings - 4 to 30 years
- Machinery and equipment - 4 to 7 years
- Mobile equipment – 3 to 5 years
- Office equipment and furniture – 3 to 8 years

The mill is amortized on a unit-of-production basis.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations when the asset is derecognized. The assets' residual values, useful lives and methods of depreciation/amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

Major maintenance and repairs
Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Company through an extended life, the expenditure is capitalized.

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets, which is immediately written off. All other day-to-day maintenance costs are expensed as incurred.

Impairment of non-financial assets
The carrying values of mineral properties and deferred exploration expenditures, and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

For exploration and evaluation assets, indicators of impairment would include expiration of a right to explore, no budgeted or planned material expenditures in an area or a decision to discontinue exploration in a specific area.

6. Significant accounting policies (continued)

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company's of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets. This generally results in the Company evaluating its non-financial assets on a geographical basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of operations so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of operations.

Financial assets
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash and cash equivalents, amounts receivable, shares in escrow and investments.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:
Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income and finance costs in the consolidated statement of operations.

The Company evaluated its financial assets at fair value through profit and loss (held for trading) to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect, in rare circumstances, to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statement of operations. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of operations. The losses arising from impairment are recognized in the consolidated statement of operations.

6. Significant accounting policies (continued)

Derecognition
A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  (a) the Company has transferred substantially all the risks and rewards of the asset; or
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a 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 have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of operations. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of operations. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of operations.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

Financial liabilities
Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued liabilities, short-term loan, liability component of convertible debenture and finance leases.

6. Significant accounting policies (continued)

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the consolidated statement of operations. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Interest-bearing loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of operations when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of operations.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of operations.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Compound financial instruments (debenture)
Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Cash and cash equivalents
Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

6. Significant accounting policies (continued)

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Inventories
Gold doré and stockpiled ore are physically measured or estimated and valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depletion, depreciation and amortization, incurred in converting materials into finished goods.

Materials and supplies are valued at the lower of cost or net realizable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

Provisions
General
Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of operations, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Rehabilitation provision
The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of operations as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of operations and comprehensive (loss).

Employee entitlements
Employee entitlements to annual leave are recognized as the employees earn them. A provision, stated at current cost, is made for the estimated liability at period end.

Loss per share
Loss per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive.

Flow-through shares
Flow-through shares are a unique Canadian tax incentive. They are the subject of specific guidance under US GAAP, but there is no equivalent IFRS guidance. Therefore, the Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted market price of the common shares and the amount the investor pays for the flow-through shares. A current liability is recognized for the premium paid by the investors and is then recognized as a deferred income tax liability in the period of renunciation if the Company does not have sufficient unrealized tax losses and deductions.

6. Significant accounting policies (continued)

Joint ventures
A portion of the Company's exploration activities are conducted jointly with others wherein the Company enters into agreements that provide for a specified percentage interest in exploration properties. Expenditures on these properties are capitalized to mineral properties and deferred exploration expenditures. Joint venture accounting, which reflects the Company's proportionate interest in exploration properties is applied by the Company only when the parties have earned their respective interests and enter into a formal comprehensive agreement for joint ownership and exploration participation.

7. Amounts receivable

	December 31, 2012	December 31, 2011
Taxes receivable	$ 647,428	$ 701,296
Interest receivable	82,526	24,001
Other receivables	184,590	91,223
	$ 914,544	$ 816,520

8. Tax credit receivable

Balance at December 31, 2010	$ 6,727,736
Tax credits received	(3,092,672)
Accrued tax credits receivable for the year	521,630
Adjustments to tax credits accrued	(2,156,315)
Balance at December 31, 2011	$ 2,000,379
Tax credits received	(629,622)
Accrued tax credits receivable for the year	233,261
Adjustments to tax credits accrued	(51,543)
Balance at December 31, 2012	**$ 1,552,475**

The Company has accrued $233,261 in government assistance for the year ended December 31, 2012. As at December 31, 2012, an amount of approximately $522,000 in government assistance is accrued for the year ended December 31, 2011 and $798,000 is accrued for the year ended December 31, 2010. The assistance has been applied to the properties to which it pertains. The Company receives this assistance in the form of refundable tax credits from the Québec Provincial Government and mining duties returns from the Québec Ministry of Natural Resources. New regulations with respect to the mining duties return have been enacted such that the Company is no longer eligible to claim this credit.

9. Inventories

	December 31, 2012	December 31, 2011
Materials and supplies	$ 1,056,303	$ 872,819
Stockpiled ore	39,666	866,671
Gold brick or doré bars	1,842,062	905,247
	$ 2,938,031	$ 2,644,737

The amount of inventories recognized as an expense during the year ended December 31, 2012 is $35,840,129 (year ended December 31, 2011: $26,032,754).

All inventory is carried at the lower of cost and net realizable value. Materials and supplies inventory is recorded at cost as at December 31, 2012 and December 31, 2011. As at December 31, 2012 and 2011, stockpiled ore and gold brick and doré inventory were recorded at net realizable value. A total of $8,817 and $622,796 of stockpiled ore and gold brick and doré inventory respectively was written down to net realizable value and included in mine operating expenses on the annual consolidated statements of operations and comprehensive (loss) for the year ended December 31, 2012 (year ended December 31, 2011: $383,556 for stockpiled ore and $674,200 for gold brick and doré inventory).

10. Prepaid expenses

	December 31, 2012	December 31, 2011
Mining supplier advances	$ 1,011,894	$ 437,276
Reclamation deposits	187,596	187,596
Deferred financing costs	544,486	366,777
Insurance	39,783	40,947
Corporate advances	89,192	107,663
	$ 1,872,951	$ 1,140,259

11. Investments

Through its Garson subsidiary, the Company's investments include shares in the following securities. These securities are classified as fair value through profit or loss ("FVTPL").

		2012		2011	
	Classification	No. held	Value	No. held	Value
Current investments					
Centurion Minerals, Ltd.	FVTPL	85,000	$ 5,100	85,000	$ 28,050
Takara Resources, Inc.	FVTPL	336,000	$ 3,360	336,000	$ 16,800
			$ 8,460		$ 44,850

An unrealized (loss) of $36,390 was recorded as other gains and losses on the annual consolidated statements of operations and comprehensive (loss) for the year ended December 31, 2012 (year ended December 31, 2011: $576,766). During the year ended December 31, 2011, the Company, through its subsidiary, sold its shares of Mineral IRL Ltd. for net proceeds of $270,364 and sold 65,000 of its shares of Centurion Minerals Ltd. for net proceeds of $55,005. A realized gain of $305,869 was recognized as a result of these transactions and is included in other gains and losses in the annual consolidated statements of operations and comprehensive (loss).

12. Property, plant and equipment

	Office equipment and furniture	Machinery and equipment	Mobile equipment	Buildings	Mill	TOTAL
Cost as at December 31, 2010	$ 245,960	$ 7,244,716	$ 5,121,793	$ 3,059,240	$ 11,979,633	$ 27,651,342
Additions	8,425	294,115	725,783	353,611	754,307	2,136,241
Disposals	-	-	-	-	-	-
Change in rehabilitation provision	-	-	-	-	180,000	180,000
Cost as at December 31, 2011	254,385	7,538,831	5,847,576	3,412,851	12,913,940	29,967,583
Additions	45,581	381,460	884,041	1,019,457	242,780	2,573,319
Change in rehabilitation provision	-	-	-	-	(197,000)	(197,000)
Cost as at December 31, 2012	**$ 299,966**	**$ 7,920,291**	**$ 6,731,617**	**$ 4,432,308**	**$ 12,959,720**	**$ 32,343,902**
Accumulated depreciation, depletion and impairment as at December 31, 2010	$ (180,684)	$ (1,998,376)	$ (2,540,843)	$ (884,257)	$ (8,904,170)	$ (14,508,330)
Charge for the year	(34,300)	(445,893)	(676,146)	(132,087)	(280,996)	(1,569,422)
Provision for impairment	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation, depletion and impairment as at December 31, 2011	(214,984)	(2,444,269)	(3,216,989)	(1,016,344)	(9,185,166)	(16,077,752)
Charge for the period	(30,714)	(429,658)	(770,082)	(303,794)	(615,478)	(2,149,726)
Provision for impairment	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation, depletion and impairment as at December 31, 2012	**$ (245,698)**	**$ (2,873,927)**	**$ (3,987,071)**	**$ (1,320,138)**	**$ (9,800,644)**	**$ (18,227,478)**
Net book value as at December 31, 2011	$ 39,401	$ 5,094,562	$ 2,630,587	$ 2,396,507	$ 3,728,774	$ 13,889,831
Net book value as at December 31, 2012	**$ 54,268**	**$ 5,046,364**	**$ 2,744,546**	**$ 3,112,170**	**$ 3,159,076**	**$ 14,116,424**

During the year ended December 31, 2012, the Company expensed $1,777,075 in depreciation to the statements of operations and comprehensive (loss) (year ended December 31, 2011: $1,247,083) and charged $322,547 to mineral properties and deferred exploration expenditures (year ended December 31, 2011: $322,339).

Included in property, plant and equipment is the Val-d'Or mill that has been operating since the second quarter of 2010. Depreciation expense, calculated on a unit-of-production basis, of $615,478 has been recorded for the year ended December 31, 2012 (year ended December 31, 2011: $280,996). The Company's Snow Lake mill is also included in property, plant and equipment and is currently on care and maintenance. No depreciation expense has been recorded in relation to the Snow Lake mill.

13. Mineral properties and deferred exploration expenditures

	PRODUCING PROPERTY	EXPLORATION AND EVALUATION						
	Lac Herbin, Quebec	Rouyn, Quebec	Lac Pelletier, Quebec	VMS, Quebec	Aurbel, Quebec	Snow Lake, Manitoba	Other, Manitoba	TOTAL
Cost as at December 31, 2011	$ 37,343,888	$ 16,660,529	$ 18,755,313	$ 13,474,892	$ 7,036,710	$ 49,069,599	$ 540,094	$142,881,025
Additions	1,465,748	1,109,339	401,646	246,723	70,416	3,421,429	324,545	7,039,846
Change in rehabilitation provision	(37,000)	-	(24,000)	-	-	(12,459,000)	-	(12,520,000)
Cost as at December 31, 2012	**$ 38,772,636**	**$ 17,769,868**	**$ 19,132,959**	**$ 13,721,615**	**$ 7,107,126**	**$ 40,032,028**	**$ 864,639**	**$137,400,871**
Accumulated depletion and impairment as at December 31, 2011	$ (34,117,120)	$ -	$ (12,926,723)	$ -	$ -	$ -	$ -	$ (47,043,843)
Charge for the period	(3,737,180)	-	-	-	-	-	-	(3,737,180)
Provision for impairment	-	(10,258,375)	-	-	-	-	-	(10,258,375)
Reversal of impairment	4,600,000	-	-	-	-	-	-	4,600,000
Disposals	-	(7,511,493)	-	-	-	-	-	(7,511,493)
Accumulated depletion and impairment as at December 31, 2012	**$ (33,254,300)**	**$ (17,769,868)**	**$ (12,926,723)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (63,950,891)**
Net book value as at December 31, 2011	$ 3,226,768	$ 16,660,529	$ 5,828,590	$ 13,474,892	$ 7,036,710	$ 49,069,599	$ 540,094	$ 95,837,182
Net book value as at December 31, 2012	**$ 5,518,336**	**$ -**	**$ 6,206,236**	**$ 13,721,615**	**$ 7,107,126**	**$ 40,032,028**	**$ 864,639**	**$ 73,449,980**

Aurbel Property (including Lac Herbin), Québec

The Company holds a 100% interest in the Aurbel Property (including Lac Herbin), subject to a 4.5% Net Smelter Royalty ("NSR"). A corporation that is controlled by a director of the Company holds 2% of the NSR. See Note 28.

On October 1, 2008, the Company declared the commencement of commercial production at Lac Herbin.

The Company assessed the value of the Lac Herbin property during the year and recorded a reversal of impairment of $4,600,000 to the value of the property during the year ended December 31, 2012 (year ended December 31, 2011: an impairment charge of $486,151).

Rouyn Noranda Properties, Québec

In September 2012, the Company sold its 100% interest in properties in the prospective Rouyn-Noranda Base Metal and Gold Camp to Druk Capital Partners ("Druk"). Druk subsequently changed its name to Falco Pacific Resource Group Inc. ("Falco"). As consideration, the Company received cash proceeds of $5,000,000 and 7,000,000 shares of Falco equalling up to a 19% ownership of Falco. The shares were valued at $1,750,000 as at the date of the transaction, the estimated value of the transaction. The majority of these shares were held in escrow as at December 31, 2012 and will be released as certain conditions are met. As at December 31, 2012, the fair market value of these shares increased to $4,200,000 resulting in an unrealized gain of $2,450,000 recognized on the Company's annual consolidated statements of operations and comprehensive (loss). Falco has also agreed to employ several current employees of the Company and has taken over operation of the Company's exploration office facility in Val d'Or, Quebec.

The Company had previously assessed these properties for impairment and recorded an impairment charge of $10,258,375 for the year ended December 31, 2012 (year ended December 31, 2011: $nil). As a result of the sale of these properties to Falco, the Company recognized a loss of $761,493 for the year ended December 31, 2012 (year ended December 31, 2011: $nil).

13. Mineral properties and deferred exploration expenditures (continued)

Lac Pelletier Property, Rouyn-Noranda, Québec

Pursuant to the September 2005 option agreement with Thundermin Resources Inc. ("Thundermin"), the Company was entitled to acquire a 100% interest in the Lac Pelletier Property, subject to a 3.5% NSR royalty and $1/tonne toll charge, by spending $1,000,000 in exploration expenditures by September 1, 2008. During 2007, the Company met its expenditure obligations.

Pursuant to the agreement, the Company extended its decision deadline and was required to make a production decision by September 1, 2009 and reach commercial production by September 1, 2010. The Company further amended this agreement such that the production decision deadline had been extended to September 1, 2010 with a payment of $100,000 in 2009. Prior to September 1, 2010, the Company issued a production commitment notice to Thundermin, thereby exercising its option to acquire the Lac Pelletier Property. The Company is in discussion with Thundermin regarding the transfer of full title and ownership of the property to the Company. Thundermin has initiated an arbitration proceeding pursuant to which it has claimed that the purported exercise by the Company of its option to acquire a 100% interest in the property is invalid. Both parties have retained counsel to commence such proceedings. The Company believes that Thundermin's claim is without merit.

During 2009, the Company entered into a property acquisition agreement to acquire a 100% interest in four mining claims located near Lac Pelletier, subject to a 2% NSR. The Company has the option to purchase, at any time, 50% of the NSR for US$1,000,000.

VMS Properties, Québec

The Company holds a 100% interest in the VMS properties, subject to Teck Cominco Ltd. (formerly Aur Resources Ltd.) retaining between a 2% and a 2.5% NSR on the properties depending on pre-existing underlying royalties. Certain claims forming part of this property are subject to NSR royalties of 1% to 2.5%, net profits royalties of 5% or net proceeds of production royalties of 10% or 25 cent charge per ton milled. Certain of the properties were held under previously existing joint venture agreements. The other party to these agreements has opted to no longer fund the properties.

Snow Lake, Manitoba

Through the acquisition of Garson, the Company acquired a 100% interest in the New Britannia Gold Mine ("NBM") in Snow Lake, Manitoba. The Company has since renamed the mine "Snow Lake Mine". A total of $5,767,000 in financial assurances is posted with both the Government of Manitoba and Kinross Gold Corporation ("Kinross") (the former owners of the New Britannia Mine) refundable upon commercial production at the mine. The letter of credit with the Manitoba government is financial assurance that the site will ultimately be closed according to the terms of the existing and approved closure plan. Once closure is complete, all or a portion of the letter of credit will be refunded to the Company. Should a NI 43-101 compliant resource of 3 million ounces be proven, Kinross retains a back-in right for a 60% interest for consideration of the equivalent of three-times the exploration costs incurred to that date.

NSR royalties totaling 2.88% on various portions of the Snow Lake property are held by third parties.

Herblet Lake, Manitoba

In November 2010, the Company entered into an agreement to acquire a 100% interest in certain mining claims in the Herblet Lake area. To acquire this 100% interest, the Company is required to make total cash payments of $300,000 and incur total exploration expenditures of $3,000,000 over a period of 5 years according to the following schedule:

13. Mineral properties and deferred exploration expenditures (continued)

		Commitment	
	Cash Payment ($)	Expenditures ($)	
November 19, 2010	50,000	-	**Paid December 2010
November 19, 2011	50,000	200,000	**Paid October 2011, expenditures met
November 19, 2012	50,000	300,000	**Paid November 2012, expenditures met
November 19, 2013	50,000	500,000	
November 19, 2014	50,000	1,000,000	
November 19, 2015	50,000	1,000,000	
	300,000	3,000,000	

The exercise of the option is subject to an NSR of 3% payable from the date of commencement of commercial production. Upon exercise of the option, the Company will be required to make advanced royalty payments of $50,000 annually up to $250,000 to be credited against future NSR payments. The Company has the right to purchase up to 50% of the NSR for a total of $1,500,000, each 0.5% of the 3% NSR requiring a $500,000 payment. As of December 31, 2012, the Company is in good standing with respect to its commitments on this agreement.

McMillan Property, Ontario

In December 2011, the Company entered into an agreement to option out its indirect 100% interest in the McMillan Property (held by Garson) to Canadian Star Minerals Ltd ("Canadian Star"). Under the terms of the agreement, Canadian Star can acquire up to a 65% interest in this property in such increments as outlined below:

- 30% interest with $200,000 in exploration and evaluation expenditures made before December 31, 2012 and the issuance of 300,000 common shares of Canadian Star at such time as Canadian Star's shares are listed on the TSX or TSX Venture; the Company has granted a 4-month extension to meet this requirement.
- An additional 10% interest with an additional $200,000 in exploration and evaluation expenditures made before December 31, 2013 and the issuance of 300,000 common shares of Canadian Star;
- An additional 10% interest with an additional $200,000 in exploration and evaluation expenditures made before December 31, 2014 and the issuance of 300,000 common shares of Canadian Star;
- A further 15% interest if during a two year period after the third anniversary of the date of signing of the agreement, Canadian Star shall complete an economic feasibility study.

If Canadian Star's common shares do not trade on the TSX or TSX Venture by the above noted deadlines, Canadian Star shall pay cash in lieu of shares to the Company at a deemed rate of $0.25 per share.

The carrying value for this property is $nil as at December 31, 2012 (2011: $nil)

14. Accounts payable and accrued liabilities

	December 31, 2012	December 31, 2011
Mining and exploration suppliers	$ 5,105,473	$ 9,785,990
Corporate payables	1,335,145	881,661
Payroll liabilities	1,481,127	1,390,322
Royalties payable	3,191,931	1,761,210
	$ 11,113,676	$ 13,819,183

15. Finance lease obligations

The Company had entered into various finance leasing arrangements for mobile equipment for terms of 24 months at interest rates of between 7.75% and 32.8%.

As at December 31, 2012, the future minimum lease payments under the finance lease arrangements were:

Finance lease obligations		
December 2013	$	6,508
		6,508
Less: Amounts representing interest		(221)
		6,287
Less: Current portion		6,287
Long-term portion	$	-

The fair value of the finance leases is approximately equal to their carrying amount.

16. Short-term loans

(a) In January 2012, the Company completed a short-term financing with Resource Income Fund, L.P. ("RIF") raising gross proceeds of US$10,000,000 (CDN$10,150,000) to continue its operations until such time as long term financing is finalized. As well as funding working capital, the short-term loan was used to repay an outstanding $2,150,000 convertible debenture (Note 17(b)). The short-term loan was due at the earlier of the Company securing financing through a long term debt facility or a non-flow-through equity financing, or August 31, 2012. The short-term loan bore interest at an annual percentage rate of 15% and was paid upfront. An upfront fee of 3% was paid to RIF upon closing of the facility. Interest and financing fees were recorded against the loan proceeds.

In conjunction with the financing, RIF was granted 200,000 warrants priced at $0.94 per share (pre-consolidation of shares: 4,000,000 warrants at $0.047) which represented a 5% premium to the 10-day volume-weighted average price ("VWAP") of the Company's common equity. The value of the warrants was estimated at $64,800 using the Black-Scholes option pricing model using the following assumptions: expected dividend yield: 0%; expected volatility: 83%; risk-free interest rate: 1%; expected life: 2 years.

RIF had additionally been granted a European call option on 7,000 oz of gold struck at US$1,900/oz which was exercisable on September 30, 2012 and expired unexercised on December 28, 2012. As well, the Company purchased European put options for US$744,600 (CDN$755,769) for 30,000 oz of gold at a strike price of US$1,300/oz as part of a price protection program. The cost of these options was treated as a financing cost and recorded against the loan proceeds. These options also expired unexercised.

In August 2012, the Company negotiated an extension of this loan to October 31, 2012 for consideration of US$500,000 (CDN$487,700). Interest continued to be charged at 15% per annum and was payable on re-payment of the loan. In addition, the 200,000 warrants previously granted were re-priced to $0.381 per share based on the 10-day VWAP of the Company's common shares as of August 28, 2012. As a result of this re-pricing, the value of the warrants increased by $19,580.

Accretion in the amount of $2,210,841 was charged to the annual consolidated statements of operations and comprehensive (loss) for the year ended December 31, 2012 in relation to this loan (year ended December 31, 2011: $nil) based on the effective interest rate method at a 38% discount rate.

This loan was repaid on November 9, 2012 along with additional accrued interest of $293,563 and $18,365 in legal costs.

(b) In August 2012, the Company entered into a loan agreement with Druk for $225,000 as an advance against the pending sale of the Rouyn properties. The Company was charged interest of 8% per annum in relation to this loan. This loan plus accrued interest of $2,721 was repaid on closing of the sale of the Rouyn properties in September 2012. Financing costs associated with this loan totaled $19,014.

16. Short-term loans (continued)

(c) In August 2012, the Company entered into a loan agreement with Aberdeen International Inc. for $500,000. The Company was charged a facility fee of $25,000 as well as interest of 15% per annum. This loan plus accrued interest of $8,219 was repaid on receipt of the cash proceeds from the sale of the Rouyn properties in September 2012.

(d) In November 2012, the Company entered into a fully secured bridge financing consisting of a senior, secured note with a face value of US$17,500,000 ($17,372,250) and net proceeds of US$15,500,000. The financing is for a one year term and the Company is required to pay cash interest payments starting June 28, 2013 at a rate of US$250,000 per month. In addition to the interest payments, the Company has granted the lender 2,900,000 warrants to acquire common shares of the Company at an exercise price of $0.27. The value of these warrants, $390,340, was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield: 0%; expected volatility: 90%; risk-free interest rate: 1.16%; expected life: 3 years.

The financing closed in two parts with the first tranche of US$10,278,750 ($10,203,315) used to pay out the bridge financing held by RIF (Note 16(a)) on November 9, 2012. The second tranche was received on November 28, 2012 net of US$114,208 in interest charged between November 9 and 28 on the first tranche and US$650,000 ($645,255) in legal and other fees charged on the loan. The Company also incurred additional legal fees and advisory costs in relation to this debt of approximately $450,000.

Costs associated with this loan have been recorded against the loan, and are being accreted over the term of the loan. Accretion expense charged on this loan for the year ended December 31, 2012 was $265,919.

The loan is fully secured by the Company's assets, and is subject to various information and affirmative covenants as well as three specific financial covenants: minimum tangible net worth; minimum recoverable gold and maximum cash cost. As at December 31, 2012, the Company was in compliance with all covenants with the exception of the maximum cash cost allowable. The lender has waived the breach and the loan is not callable.

17. Convertible debentures

a) During 2006, the Company completed a private placement debenture financing with Industrial Alliance Securities Inc. ("Industrial Alliance") raising $4,210,000 in gross proceeds with the issuance of units comprised of $1,000 principal convertible debentures (the "Debentures") maturing April 28, 2010. On April 28, 2010, the Company entered into agreements with the current holders of the expiring convertible debentures to roll over the existing 6% convertible debentures into units comprised of $1,000 principal amount 10% convertible unsecured subordinated debentures due April 28, 2014. Interest will be payable in equal semi-annual interim instalments on April 30 and October 30 at 10% per annum commencing October 30, 2010. At the option of the Company, interest shall be payable in cash or in shares. If payment is in shares, it will be based on a price equal to 90% of the average closing price of the common shares of the Company on the Toronto Stock Exchange for a period of 20 consecutive trading days ending five trading days before payment date. Each debenture is convertible at the option of the holder into common shares of the Company at any time after the issue date at the conversion price of $8.00 per share. Except in the event of a change of control, the debentures are not redeemable prior to April 28, 2012. On or after April 28, 2012 and up to and including April 28, 2014, the debentures may be redeemed by the Company at the option of the Company at par plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' notice prior to the date fixed for redemption provided that the average closing price of the Company's common shares during the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the conversion price. A charge of $94,000 was incurred in relation to the roll-over agreements.

The Debentures are classified as a liability, with the exception of the portion relating to the conversion features, resulting in the carrying value of the Debentures being less than its face value. The discount is being accreted over the term of the Debentures, utilizing the effective interest rate method at a 15% discount rate. An amount of $596,062 in accretion was recorded as financing costs on the annual consolidated statements of operations and comprehensive income/(loss) for the year ended December 31, 2012 (year ended December 31, 2011: $571,309).

Financing charges associated with the Debentures were prorated between the debt and equity components of the Debentures. Those allocated to the debt portion of the Debentures are deferred and accreted over the term of the Debentures. For the year ended December 31, 2012, $17,519 in deferred financing charges was recorded as financing costs (year ended December 31, 2011: $17,519).

17. Convertible debentures (continued)

In lieu of the 10% cash interest payment due to debenture holders on October 30, 2012, the Company issued 820,055 common shares, at a weighted average price of $0.2588 per share subsequent to the end of the year upon receiving regulatory approval. In lieu of the 10% cash interest payment due to debenture holders on October 30, 2011, the Company issued 169,020 common shares (3,380,406 pre-consolidation shares) in January 2012 after receiving regulatory approval. These shares were valued at a weighted average price of $1.24 per share (pre-consolidation $0.0621) for a total amount of $209,923.

In lieu of the 10% cash interest payment due on April 28, 2012, the Company issued 228,696 shares in July 2012 at a weighted average price of $0.928 per share for a total value of $212,230. In lieu of the 10% cash interest payment due on April 28, 2011, the Company issued 91,646 shares (1,832,922 pre-consolidation shares) in May 2011 at a weighted average price of $2.278 per share (pre-consolidation $0.1139) for a total value of $208,770.

b) As a result of the acquisition of Garson, the Company was carrying a convertible debenture with a face value of $2,150,000 and a coupon rate of 10%. There were 200,000 warrants outstanding at an exercise price of $10.00 with an expiry date of July 15, 2012 related to this debenture. These warrants expired unexercised. The debenture had been classified as a liability, with the exception of the portion relating to the conversion feature.

In January 2012, the Company extinguished this liability with the payment of $2,150,000 plus accrued interest (Note 16(a)). An amount of $152,115 in accretion of discount and $3,675 of interest was recorded against mineral exploration costs related to the Snow Lake project for the year ended December 31, 2012 (year ended December 31, 2011: $173,464 in accretion and $219,225 in interest expense). Upon the extinguishment of the debenture, $185,975 related to the portion of the debenture related to the conversion feature was reallocated to deficit.

18. Provision for closure and reclamation

The Company's provision for closure and reclamation costs is based on management's estimates of costs to abandon and reclaim mineral properties and facilities as well as an estimate of the future timing of the costs to be incurred.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the provision for closure and reclamation associated with the retirement of the Company's plant and mineral properties:

Balance at December 31, 2010	$	11,516,000
Unwinding of discount and effect of changes in the discount rate		7,440,000
Balance at December 31, 2011	$	18,956,000
Adjustments resulting from re-measurement		(12,717,000)
Unwinding of discount and effect of changes in the discount rate		97,000
Balance at December 31, 2012	**$**	**6,336,000**

The Company has re-assessed its total provision for closure and reclamation and estimated it to be $6,336,000 at December 31, 2012 (2011: $18,956,000) based on a total future liability of approximately $6,319,000 (2011: $17,413,000), an inflation rate of 1.1% (2011: 2.30%) and a discount rate ranging between 1.3% and 1.72% (2011: 0.99% and 1.51%). Reclamation is expected to occur in three to nine years.

Through Garson, the Company has term deposits amounting to $5,767,000 restricted for the reclamation of the Snow Lake property. The Company has placed funds on deposit as collateral for letters of credit issued to the vendor of the NBM, Kinross Gold Corporation, as well as to the Government of Manitoba, for Garson's share of assumed reclamation and operating obligations. The Company pays an annual fee of 1% of the face value of the letter. Funds on deposit have been invested in short term GICs earning interest at 1% during 2012. The GICs can be redeemed prior to maturity without penalty.

19. Share Capital

The Company consolidated its issued and outstanding common shares on the basis of one new common share of the Company for every twenty existing common shares of the Company. All common shares and per share amounts have been restated to give retroactive effect to the share consolidation.

a) As at December 31, 2012 and December 31, 2011, the Company's authorized number of common shares was unlimited without par value.

b) Common shares	Number of Shares	Amount
Balance, December 31, 2010	**19,527,764**	**$ 114,257,612**
Public offering (i)	10,062,500	20,125,000
Shares issued for payment of interest (Note 17(a))	91,646	208,770
Shares issued for acquisition of subsidiary	373	2,164
Value of broker warrants granted on public offering (i)	-	(449,200)
Cost of issue	-	(1,622,926)
Balance, December 31, 2011	**29,682,284**	**$ 132,521,420**
Shares issued for payment of interest (Note 17(a))	397,716	422,153
Adjustment for rounding on consolidation	(13)	-
Balance, December 31, 2012	**30,079,987**	**$ 132,943,573**

(i) In May 2011, the Company completed a bought deal offering with the issuance of 175,000,000 common shares of the Company at a price of $0.10. As well, an over-allotment option to purchase an additional 26,250,000 common shares of the Company at $0.10 per share was granted to the underwriters and exercised. In total, the Company raised gross proceeds of $20,125,000. Commissions of 7% were charged by the underwriters with respect to this financing. The Company granted the underwriters 12,075,000 broker warrants which are exercisable into 12,075,000 common shares of the Company at a price of $0.10 per share until May 12, 2014. The grant-date fair value of these broker warrants, $449,200, was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield: 0%; expected volatility: 66%; risk-free interest rate: 1.70%; and expected life: 2 years. Additional issue costs included legal fees and other disbursements.

20. Share-based payments reserve

	No. of Options	Weighted Average Exercise Price	**Grant Date Fair Value of Options**	No. of Warrants	Weighted Average Exercise Price	**Grant Date Fair Value of Warrants**	**TOTAL VALUE**
December 31, 2010	747,032	$11.56	**$ 4,876,967**	4,113,583	$8.39	**$ 3,405,078**	**$ 8,282,045**
Granted	597,000	2.46	**675,807**	803,750	1.74	**514,000**	**1,189,807**
Expired	(305,643)	11.74	**(1,550,117)**	(902,475)	10.09	**(1,508,517)**	**(3,058,634)**
Forfeited	(14,063)	8.50	**-**	-	**-**	**-**	**-**
December 31, 2011	1,024,326	$6.24	**$ 4,002,657**	4,014,857	$0.00	**$ 2,410,561**	**$ 6,413,218**
Granted	88,250	2.00	**28,898**	2,900,000	0.25	**409,920**	**438,818**
Expired	(319,188)	10.19	**(2,183,486)**	(339,583)	7.12	**(285,400)**	**(2,468,886)**
December 31, 2012	**793,388**	**$4.18**	**$ 1,848,069**	**6,575,274**	**$6.67**	**$ 2,535,081**	**$ 4,383,150**

20. Share-based payments reserve (continued)

The following share-based payment arrangements were in existence as at December 31, 2012:

WARRANTS AND BROKER WARRANTS:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
200,000	200,000	28-Dec-11	28-Dec-13	$ 0.38	$ 84,380	68%	1.33	0%	1.16%
603,750	603,750	12-May-11	12-May-13	$ 2.00	$ 449,200	66%	2.00	0%	1.70%
2,871,524	2,871,524	2-Sep-10	2-Sep-13	$ 8.00	$ 1,611,161	71%	3.00	0%	1.55%
2,900,000	2,900,000	28-Nov-12	28-Nov-15	$ 0.25	$ 390,340	90%	3.00	0%	1.16%
6,575,274	6,575,274				$ 2,535,081				

As a result of the extension of the short-term loan in August, 2012 (Note 16(a)), 200,000 warrants at an exercise price of $0.94 were re-priced to $0.381 based on the 10-day VWAP of the Company's common shares as of August 28, 2012. Consequently, the estimated fair value of these warrants increased by $19,580 to $84,380.

The 2,900,000 warrants granted in November 2012 related to the short-term loan received on November 28, 2012 (Note 16(d)).

STOCK OPTIONS:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
86,675	86,675	4-Aug-08	5-Aug-13	$ 9.80	$ 558,186	80%	5.00	0%	3.20%
1,088	1,088	30-Apr-10	4-Feb-14	$ 6.90	$ 3,300	76%	3.80	0%	2.42%
625	625	14-Jul-09	14-Jul-14	$ 8.20	$ 3,250	77%	5.00	0%	2.50%
120,250	120,250	21-Dec-09	21-Dec-14	$ 8.50	$ 630,109	76%	5.00	0%	1.35%
1,000	1,000	9-Jun-10	9-Jun-15	$ 4.68	$ 3,100	78%	5.00	0%	2.65%
2,500	2,500	4-Nov-10	4-Nov-15	$ 4.40	$ 7,365	77%	5.00	0%	1.98%
100,000	100,000	10-Jan-11	10-Jan-16	$ 4.00	$ 254,200	77%	5.00	0%	2.46%
44,500	44,500	10-Feb-11	10-Feb-16	$ 3.30	$ 96,746	77%	5.00	0%	2.75%
75,000	75,000	6-Jun-11	6-Jun-16	$ 2.00	$ 83,250	78%	5.00	0%	2.23%
291,250	291,250	29-Nov-11	29-Nov-16	$ 2.00	$ 191,643	80%	5.00	0%	1.46%
70,500	70,500	8-Jun-12	8-Jun-17	$ 2.00	$ 16,920	80%	5.00	0%	1.29%
793,388	793,388				$ 1,848,069				

Employee share option plan

The shareholders of the Company approved the Company's existing stock option plan, the "Plan", to be administered by the directors of the Company. Under the Plan, the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. Options granted under the Plan will be for a term not to exceed 5 years. The options currently granted under the plan vest immediately pending any regulatory hold period. The plan provides that, it is solely within the discretion of the board to determine who should receive stock options and in what amounts. In no case (calculated at the time of grant) shall the plan result in:

- The number of options granted in a 12-month period to any one consultant exceeding 2% of the issued shares of the Company;
- The aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Company;
- The number of options granted in any 12-month period to employees or consultants undertaking investor relations activities exceeding in aggregate 2% of the issued shares of the Company;
- The aggregate number of common shares reserved for issuance to any one individual upon the exercise of options granted under the Plan or any previously established and outstanding stock option plans or grants exceeding 5% of the issued shares of the Company in any 12-month period.

20. Share-based payments reserve (continued)

During the year ended December 31, 2012, 88,250 stock options (year ended December 31, 2011: 597,000) were granted to directors, officers, employees and consultants of the Company generating a charge to professional, consulting and management fees of $18,909 for the year ended December 31, 2012 (year ended December 31, 2011: $562,178). As well, $9,989 in stock-based compensation was charged to mineral properties during the year ended December 31, 2012 (year ended December 31, 2011: $113,630). The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility over the past 5 years. The expected life of the option was calculated based on the history of option exercises.

21. Transaction with owners

The Company acquired the non-controlling interest of Garson on April 29, 2010 through the issuance of 327,510 shares. As at December 31, 2012, some shareholders had not yet tendered their Garson shares, and consequently an amount of $148,150 (December 31, 2011: $148,150) is recorded as a commitment to issue shares. The consideration paid was applied against the non-controlling interest and the residual amount of $100,845 was recorded to transactions with owners.

22. Other gains and losses

	Years ended December 31,	
	2012	2011
Net foreign exchange gains/(losses)	$ 164,852	$ (24,695)
General exploration expenditures	(40,495)	(2,856)
Unrealized gain/(loss) arising on financial assets designated as FVTPL	2,413,610	(576,766)
Realized gain on sale of financial assets	-	305,869
	$ 2,537,967	$ (298,448)

23. Finance costs

	Years ended December 31,	
	2012	2011
Accretion of reclamation provision	$ (97,000)	$ (268,000)
Accretion of convertible debenture	(613,582)	(588,828)
Accretion of short-term loan financing costs and interest	(3,032,738)	-
Flow-through interest penalty	4,778	(67,994)
Other interest expense	(551,742)	(146,162)
	$ (4,290,284)	$(1,070,984)

24. Net (loss) per share

Shares issuable from options, warrants and convertible debentures were excluded from the computation of diluted loss per share because their effect would be anti-dilutive for the years ended December 31, 2012 and 2011.

25. Deferred income tax

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 26% (December 31, 2011 - 28%) were:

	2012 $	2011 $
(Loss) before income taxes	(16,164,090)	(15,708,713)
Expected income tax recovery based on statutory rate	(4,041,000)	(4,398,000)
Adjustment to expected income tax benefit:		
Share-based payments	5,000	141,000
Accretion on decommissing liabilities and convertible debt	935,000	214,000
Non-taxable flowthrough share premium	-	2,065,084
Flow-through renunciation	-	2,963,000
Sale of marketable securities	237,000	-
Other	1,588,000	(211,000)
Share issue costs	(1,202,000)	(406,000)
Difference in tax rates	-	471,000
Benefit of tax losses not recognized	(2,478,000)	1,226,000
Deferred income tax provision (recovery)	-	2,065,084

The statutory rate has decreased 3.25% due to a decrease in the federal tax rate of 1.5% and a decrease in the provincial rate of 1.75%.

b) Deferred income tax balances

The tax effect of temporary differences that give rise to deferred income tax assets and liabilities in Canada at December 31, 2012 and December 31, 2011 are as follows:

	2012 $	2011 $
Deferred tax assets and liabilities:		
Investments	(306,000)	-
Non-capital loss carryforwards	306,000	-
Deferred income tax liability	-	-
Deferred tax assets have not been recognized in respect of the following items:		
Non-capital loss carry-forwards	12,170,000	10,227,000
Share issue costs	1,833,000	1,372,000
Mineral property costs	2,962,000	3,409,000
Other temporary differences	1,832,000	1,311,000
Total	18,797,000	16,319,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

25. Deferred income tax (continued)

c) As at December 31, 2012, the Company has approximately $65,000,000 of Canadian development and exploration expenditures which under certain circumstances can be used to reduce the taxable income of future years.

d) The Company has approximately $49,900,000 of non-capital losses in Canada as at December 31, 2012 which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

Expiry Date	
2014	1,044,000
2015	1,550,000
2026	1,790,000
2027	200,000
2028	9,888,000
2029	5,162,000
2030	9,442,000
2031	14,652,000
2032	6,176,700
	49,904,700

26. Financial instruments

Financial assets and financial liabilities as at December 31, 2012 and 2011 were as follows:

December 31, 2012	Loans and receivables, other liabilities	Assets/liabilities at fair value through profit or loss	TOTAL
Cash and cash equivalents	$ 1,005,587	$ 30,000	$ 1,035,587
Amounts receivables	267,116	-	267,116
Investments	-	8,460	8,460
Shares on hand or in escrow to be received	-	4,200,000	4,200,000
Restricted cash equivalents	-	5,767,000	5,767,000
Accounts payable and accrued liabilities	11,113,676	-	11,113,676
Finance leases, current and long-term	6,287	-	6,287
Short-term loan	14,126,430	-	14,126,430
Liability component of convertible debenture	4,171,819	-	4,171,819

December 31, 2011	Loans and receivables, other liabilities	Assets/liabilities at fair value through profit or loss	TOTAL
Cash and cash equivalents	$ 1,585,261	$ 30,000	$ 1,615,261
Amounts receivables	115,224	-	115,224
Investments	-	44,850	44,850
Restricted cash equivalents	-	5,767,000	5,767,000
Accounts payable and accrued liabilities	13,819,183	-	13,819,183
Finance leases, current and long-term	95,801	-	95,801
Liability component of convertible debenture	5,980,676	-	5,980,676

A fair value hierarchy prioritizes the methods and assumptions used to develop fair value measurements for those financial assets where fair value is recognized on the statement of financial position. These have been prioritized into three levels.

Level 1 – Quoted prices (unadjusted) 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 or indirectly
Level 3 – Inputs for the asset or liability that are not based on observable market data.

Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement.

26. Financial instruments (continued)

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy as at December 31, 2012 and 2011.

2012	Level 1	Level 2	Level 3
Cash equivalents	$ -	$ 30,000	$ -
Restricted cash equivalents	-	5,767,000	-
Investments	8,460	-	-
Shares in escrow to be received	4,200,000	-	-

2011	Level 1	Level 2	Level 3
Cash equivalents	$ -	$ 30,000	$ -
Restricted cash equivalents	-	5,767,000	-
Investments	44,850	-	-
Shares in escrow to be received	-	-	-

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the year ended December 31, 2012 and 2011.

Credit risk

The Company's credit risk is primarily attributable to cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates and bankers acceptances, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist of receivables from related and unrelated companies. The Company currently transacts with highly rated counterparties for the sale of gold. Management believes that the credit risk concentration with respect to these financial instruments is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to endeavour to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2012, the Company had a cash and cash equivalents balance of $1,035,587 (December 31, 2011: $1,615,261) to settle current liabilities of $25,246,393 (December 31, 2011: $15,908,967). Approximately $9,031,000 of the Company's financial liabilities as at December 31, 2012 have contractual maturities of less than 30 days and are subject to normal trade terms. The Company's US$17,500,000 short-term loan is due on November 28, 2013.

Interest rate risk

The Company has cash balances subject to fluctuations in the prime rate. The Company's current policy is to invest excess cash in investment-grade deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company carries convertible debentures on which interest is payable quarterly or semi-annually at fixed rates of 10% per annum. The Company's short-term loan also carries a fixed interest rate of approximately 17% per annum. Management believes that interest rate risk is remote as investments have maturities of three months or less and the Company currently does not carry interest bearing debt at floating rates.

Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. All gold sales revenues are denominated in US dollars. As well, the Company's short-term loan is denominated in US dollars. The Company is exposed to currency risk with fluctuations in the Canadian dollar relative to the US dollar. The Company currently does not use derivatives to mitigate its foreign currency risk.

26. Financial instruments (continued)

Price risk

The Company is exposed to price risk with respect to commodity prices, specifically gold. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future gold mining operations will be significantly affected by changes in the market prices for gold. Gold prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for gold, the level of interest rates, the rate of inflation, investment decisions by large holders of gold including governmental reserves and stability of exchange rates can all cause significant fluctuations in gold prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

In connection to the short-term loan (Note 16(a)), the Company entered into a price protection program with the purchase of put options for 30,000 oz of gold at a strike price of US$1,300/oz. These expired on December 31, 2012.

Securities price risk

The Company carries investments in certain public securities for which price fluctuations can affect the Company's earnings. The Company classifies these investments as held-for-trading where price volatility is reflected in earnings.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the year:

- The Company does not hold interest bearing debt at interest rates subject to market fluctuations to give rise to interest rate risk.
- Based on the gold brick and doré inventory held by the Company as at December 31, 2012, a 10% fluctuation in the exchange rate from US$ to CDN$ will generate increases or decreases in value of approximately $184,000.
- Based on the gold brick and doré inventory held by the Company at December 31, 2012, an increase or decrease in the market price of gold of US$100 per ounce would generate a respective increase or decrease in value of approximately $111,000.
- The Company is carrying its short-term loan in US dollars. A 10% change in the CDN$-US$ exchange rate as at December 31, 2012 would generate a change to net loss of approximately $1,410,000.

27. Capital management

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition, exploration and development of mineral properties. The capital of the Company consists of share capital, warrants, options and convertible debentures. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is in production and has been generating cash flows to support the ongoing and longer term strategy focused on regional exploration. However, the Company may continue to rely on capital markets to support continued growth. 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 were no changes in the Company's approach to capital management during the year ended December 31, 2012 and 2011. The Company and its subsidiary are subject to certain minimum capital requirements with respect to its short term loan. As at December 31, 2012, the Company was in breach of one of its covenants related to the loan (Note 16(d)).

28. Related party disclosures

The annual consolidated financial statements include the financial statements of the Company and its 100% wholly-owned subsidiary, Garson.

During the year ended December 31, 2012, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

	Purchases of goods and services			
	Years ended December 31,			
	2012		2011	
2227929 Ontario Inc.	$	231,885	$	381,660
Forbes & Manhattan, Inc.		952,671		434,196

The Company shares office space with other companies who may have officers or directors in common with the Company. The costs associated with this space and certain other services are administered by 2227929 Ontario Inc. Mr. Stan Bharti is the Executive Chairman of Forbes & Manhattan, Inc. Mr. Bharti was a director of the Company until his resignation on March 6, 2012; however as the Company is part of the Forbes & Manhattan Group of Companies, it continues to receive the benefits of such membership, including access to mining professionals, advice from Mr. Bharti, and strategic advice from the Forbes & Manhattan Board of Advisors. An administration fee of $25,000 per month is charged by Forbes & Manhattan, Inc. pursuant to a consulting agreement. As well, a 2% royalty is payable on gold sales from the Aurbel properties (including Lac Herbin) to Forbes & Manhattan, Inc.

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties				Amounts owed to related parties			
	December 31, 2012		December 31, 2011		December 31, 2012		December 31, 2011	
2227929 Ontario Inc.	$	18,000	$	18,000	$	44,914	$	64,307
Forbes & Manhattan, Inc.	$	-	$	-	$	1,251,476	$	243,302

The amounts outstanding are unsecured, non-interest-bearing with no fixed terms of payments. No guarantees have been given or received. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

The Company entered into a loan with Aberdeen International Inc. (Note 16(c)). Mr. Bharti, a former director of the Company, is the Chairman of the Board of Aberdeen International Inc.

Directors and officers of the Company subscribed for 326,250 (pre-consolidation 6,525,000) common shares of the Company at $2.00 per share (pre-consolidation $0.10 per share) in the May 2011 financing.

Compensation of key management personnel of the Company
The remuneration of directors and other members of key management personnel during the period were as follows:

	Years ended December 31,			
	2012		2011	
Short-term benefits	$	1,500,741	$	1,373,253
Share-based payments		5,400		591,780

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends. See also Note 29(a).

29. Commitments and contingencies

(a) The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $4,600,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contractual commitments remaining under the agreements are approximately $1,540,000, all due within one year.

(b) The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

(c) Thundermin has initiated an arbitration proceeding with respect to the Lac Pelletier property. See Note 13. The Company believes that Thundermin's claim is without merit.

(d) The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

30. Subsequent events

In January 2013, 1,872,500 stock options were granted to directors, officers, employees and consultants of the Company at an exercise price of $0.24 expiring 5 years from the date of grant.

In January 2013, the Company received regulatory approval and issued 820,055 common shares, at a weighted average price of $0.2588 per share, in lieu of the 10% cash interest payment due to debenture holders on October 30, 2012 (Note 17(a)).