Consolidated Financial Statements

December 31, 2012 and 2011

San Gold Corporation
Corporate Office
212-1661 Portage Avenue
Winnipeg, MB
R3J 3T7
Canada

Info1@sangold.ca
www.sangold.ca

Scarrow & Donald LLP

SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS
100 - Five Donald Street
Winnipeg, Manitoba R3L 2T4
Telephone: (204) 982-9800
Fax: (204) 474-2886
www.scarrowdonald.mb.ca

March 25, 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of San Gold Corporation:

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

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

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 in our audits 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 San Gold Corporation as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss for the period ended December 31, 2012 of $13,187,672 (2011 - $5,090,550) and has a deficit of $191,434,961 as at December 31, 2011 (2011 - $178,063,384). These conditions, along with other matters as 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. Our opinion is not qualified in respect of this matter.

Scarrow & Donald LLP

Chartered Accountants
Winnipeg, Canada

SAN GOLD CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	As at December 31, 2012	As at December 31, 2011
CURRENT ASSETS		
Cash	$ 1,741,324	$ 726,780
Accounts receivable	10,628,184	14,724,488
Marketable securities (Note 4)	9,835,372	19,165,350
Supply inventory	7,043,568	4,900,479
Gold in process (Note 5)	7,688,976	9,551,971
Prepaid expenses	721,418	548,289
	37,658,842	**49,617,357**
PROPERTY, PLANT AND EQUIPMENT (Note 6)	**63,173,725**	**54,705,506**
MINERAL PROPERTIES (Note 7)	**148,945,115**	**128,022,043**
OTHER ASSETS		
Mining claims and options (Note 8)	15,775,799	6,652,949
Investment in associate (Note 9)	1	1
	15,775,800	**6,652,950**
	$ 265,553,482	**$ 238,997,856**

LIABILITIES

	2012	2011
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 10)	$ 18,863,813	$ 13,346,447
Flow-through share premium	5,455,981	2,230,327
Current portion of long-term debt (Note 11)	1,451,041	1,619,818
	25,770,835	**17,196,592**
LONG-TERM LIABILITIES		
Asset retirement obligation (Note 12)	3,284,878	3,274,549
Long-term debt (Note 11)	1,664,643	3,115,684
Net royalty obligation (Note 21)	1,861,319	2,116,471
	6,810,840	**8,506,704**

SHAREHOLDERS' EQUITY

	2012	2011
EQUITY	**232,971,807**	**213,294,560**
	$ 265,553,482	**$ 238,997,856**

Commitments (Note 25)

The accompanying notes form an integral part of these consolidated financial statements. These financial statements were approved by the board of directors and authorized for issue on March 25, 2013.

APPROVED BY THE BOARD: *"Hugh Wynne"* Director

"Dale Ginn" Director

SAN GOLD CORPORATION
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31

	2012	2011
REVENUE	**$ 142,141,548**	**$ 114,124,699**
OPERATIONS		
Operations (Note 16)	121,547,816	83,726,249
INCOME FROM OPERATIONS	**20,593,732**	**30,398,450**
Exploration	16,716,995	24,498,550
General and administrative (Note 17)	16,286,259	16,394,578
LOSS BEFORE OTHER INCOME AND EXPENSES	**12,409,522**	**10,494,678**
OTHER INCOME AND EXPENSES		
Finance income - net (Note 18)	368,087	604,478
Finance costs (Note 18)	(391,083)	(444,373)
Equity loss of associate (Note 9)	(5,030,000)	(483,350)
LOSS BEFORE INCOME TAX	17,462,518	10,817,923
Income tax recovery on flow-through shares (Note 19)	4,274,846	5,727,373
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	**$ 13,187,672**	**$ 5,090,550**
NET LOSS PER COMMON SHARE: (Note 22)		
Basic	**$ 0.04**	**$ 0.02**
Diluted	**$ 0.04**	**$ 0.02**

SAN GOLD CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2012	2011
OPERATING ACTIVITIES		
Net loss for the period	**$ (13,187,672)**	**$ (5,090,550)**
Add: Items not affecting cash		
Accretion - asset retirement obligation	4,723	19,716
Loss on sale of mining claim	420,000	-
Amortization - property, plant and equipment	7,057,861	4,711,243
Depletion - mineral properties	41,241,672	18,251,553
Fair market value adjustment on marketable securities	(27,348)	(232,171)
Equity loss from subsidiary	5,030,000	483,350
Share-based compensation	5,826,489	7,525,984
Income tax recovery	(4,274,846)	(5,727,373)
Net change in non-cash working capital (Note 27)	8,980,895	(10,326,053)
	51,071,774	**9,615,699**
INVESTING ACTIVITIES		
Investment in subsidiary	(1,000,000)	-
Purchase of property, plant and equipment	(15,526,080)	(27,762,968)
Investment in mineral properties	(62,159,138)	(50,366,622)
Change in marketable securities	9,357,326	40,614,528
Purchase of mining claims and options	(624,000)	(270,000)
	(69,951,892)	**(37,785,062)**
FINANCING ACTIVITIES		
Proceeds from shares issued and subscribed	22,814,000	35,497,100
Proceeds from long-term debt	-	1,177,495
Share issue costs	(1,299,520)	(1,655,019)
Repayment of long-term debt	(1,619,818)	(2,397,844)
	19,894,662	**32,621,732**
CHANGE IN CASH	**1,014,544**	**4,452,369**
CASH (BANK INDEBTEDNESS), BEGINNING OF THE PERIOD	726,780	(3,725,589)
CASH, END OF THE PERIOD	**$ 1,741,324**	**$ 726,780**
Supplementary Information		
Interest paid	**$ 386,360**	**$ 424,657**
Finance income received	**$ 98,498**	**$ 255,193**

SAN GOLD CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Contributed surplus	Deficit	Total
Balance as at Decemer 31, 2010	$ 344,275,207	$ 12,356,389	$ (171,778,801)	$ 184,852,795
Private placements	21,883,675	-	(1,655,019)	20,228,656
Stock-based compensation	9,877,595	2,843,128	460,986	13,181,709
Non monetary issues	121,950	-	-	121,950
Net loss	-	-	(5,090,550)	(5,090,550)
Balance as at December 31, 2011	**$ 376,158,427**	**$ 15,199,517**	**$ (178,063,384)**	**$ 213,294,560**
Balance as at December 31, 2011	$ 376,158,427	$ 15,199,517	$ (178,063,384)	$ 213,294,560
Private placements	15,001,000	-	(1,299,520)	13,701,480
Stock-based compensation	510,514	4,512,860	1,115,615	6,138,989
Non monetary issues	13,024,450	-	-	13,024,450
Net loss	-	-	(13,187,672)	(13,187,672)
Balance as at December 31, 2012	**$ 404,694,391**	**$ 19,712,377**	**$ (191,434,961)**	**$ 232,971,807**

1. Nature of operations and going concern assumption

San Gold Corporation and its subsidiaries ("the Company") is a listed public company, incorporated and domiciled in Canada. The shares of the Company are traded on the Toronto and OTCQX stock exchanges under the trading symbols "SGR" and "SGRCF", respectively. The address of the Company's corporate office is 212-1661 Portage Avenue, Winnipeg, Manitoba, R3J 3T7. The address of the Company's principal place of business is P.O. Box 1000, General Delivery, Bissett, Manitoba, R0E 0J0. The registered office of the Company is Aikins, MacAulay & Thorvaldson LLP, 30th floor, 360 Main Street, Winnipeg, Manitoba, R3C 4G1.

The Company's main business operations consist of exploring for gold primarily in the Bissett area of Manitoba, Canada and producing gold from: (i) the Rice Lake Mine; and (ii) the Hinge Mine. The Company also owns certain Mineral claims in and around the Timmins, Ontario area. The Company has begun certain minor exploration activities on these claims but these activities do not form a material portion of the business of the Company. The primary product produced by the Company is gold, which is sold by the Company as described in Note 2. Since commencing commercial production of gold, the Company has received revenue from, and anticipates that its markets will continue to be, the North American gold bullion markets.

For the year ended December 31, 2012, the Company had a comprehensive loss of $13,187,672 (December 31, 2011 – $5,090,550) and a deficit of $191,434,961 (December 31, 2011 - $178,063,384). In addition to ongoing working capital requirements, the Company may be required to secure sufficient funding for exploration and development programs, general and administration costs and interest charges. Although management may have been successful in the past in undertaking financings, there can be no assurance that management will be able to do so in the future on terms acceptable to the Company.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and consolidated statement of financial position classifications that may be necessary were the going concern assumption inappropriate. These adjustments could be material.

2. Significant accounting policies

a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency as it is the currency of the primary economic environment in which the transactions are undertaken. All reference to dollars ($) are to Canadian dollars unless otherwise noted. The consolidated financial statements have been prepared on a historical cost basis, except for cash, accounts receivable, marketable securities, investment in associate, bank indebtedness, accounts payable, long-term debt (excluding finance leases), and net royalty obligation.

b) Accounting estimates

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the fiscal year. Critical accounting estimates and judgments are described in Note 3.

2. Significant accounting policies (continued)

c) Cash and Bank indebtedness

Cash consists of demand deposits with financial institutions. The Company classifies outstanding cheques in excess of funds on deposit as bank indebtedness.

d) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as at fair value through profit or loss, available for sale, held to maturity, loans and receivables, or financial liabilities measured at amortized cost. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of financial instruments at initial recognition. Transactions to purchase or sell financial assets are recorded on the settlement date.

Financial assets and financial liabilities classified at fair value through profit or loss are subsequently measured at fair value with gains and losses recognized in net income (loss). Loans and receivables and financial liabilities measured at amortized cost are subsequently measured at their amortized cost, using the effective interest method.

Derivative instruments are recorded at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net income (loss), except for derivatives that are designated as cash flow hedges. The Company presently does not have any derivative financial instruments.

The Company has designated its accounts payable, long-term debt (excluding finance leases), and net royalty obligation as financial liabilities measured at amortized cost, which are reflected on the consolidated statement of financial position at amortized cost using the effective interest method of measurement. Marketable securities have been designated at fair value through profit or loss, which are reflected on the consolidated statement of financial position at fair value. The Company has designated cash, accounts receivable, and bank indebtedness as loans and receivables, which are reflected on the consolidated statement of financial position at amortized cost using the effective interest method of measurement.

Transaction costs are expensed as incurred for financial instruments classified or designated at fair value through profit or loss. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

The Company assesses impairment of all its financial assets, except those classified at fair value through profit or loss. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in net income (loss).

2. Significant accounting policies (continued)

e) Fair Value

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the consolidated statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobserved inputs) (Level 3).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

f) Principles of consolidation

These consolidated financial statements include the financial assets and liabilities and results of operations of the Company and of its wholly owned subsidiary corporations 6493068 Canada Ltd., 6573258 Canada Ltd., and 6772684 Canada Ltd.

g) Associates

Investments in associates, where the Company has significant influence but not control, are accounted for using the equity method and are recorded at cost plus the Company's share of income or loss to date less dividends received. Subsequent to the acquisition date, the Company's share of profits or losses of associates is recognized in the consolidated statement of net income (loss) and its share of other comprehensive income (loss) of associates is included in the other comprehensive income (loss) account.

The Company assesses at each year-end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of net income (loss).

2. Significant accounting policies (continued)

h) Income taxes

Current tax for each taxable entity is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the consolidated statement of financial position date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred tax is recognized using the liability method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below:

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss and in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss and in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the consolidated statement of financial position date.

Current and deferred tax relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of net income (loss).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entities or in different taxable entities, and, where there is the intent to settle the balance on a net basis.

Flow-through shares

Expenditures related to exploration and development activities funded by flow-through shares are renounced to investors in accordance with income tax regulations. The proceeds on the issuance of flow-through shares are allocated to share capital and flow-through share premium liability. The flow-through share premium liability represents the difference between the proceeds received and the market price of the Company’s shares on the date of the transaction. The flow-through share premium liability is recognized as income when the eligible expenditures are incurred and there is an intention to renounce.

2. Significant accounting policies (continued)

Mining Taxes

Income tax expense includes the mining taxes payable to governments that are calculated based on a percentage of taxable profit whereby taxable profit represents net income adjusted for certain items defined in the applicable legislation.

i) Revenue recognition

Revenue is recognized when all of the activities to produce the gold have been completed by the Company and the risks and rewards of ownership have been transferred. This occurs when the gold is received by the purchasers at the point of shipping from the mill. Adjustments to accounts receivable, if any, between the date of title transfer and the settlement date are recorded when determinable within "Revenue".

Dore bars and gold in process are recorded in inventory at the lower of average production cost and net realizable value.

Interest and the indemnification fee revenue are recorded on an accrual basis within "Finance income".

j) Capitalization policy for mineral properties

Exploration expenditures and near term ore development costs are expensed as incurred. Factors considered in determining whether activity at a property is near term or longer term development include: the probability of future benefit, the time horizon to expected development, and the existence of an economic plan for development. By its nature there is a significant amount of management estimate involved in this evaluation.

Property acquisition costs, and longer term development costs incurred to expand ore reserves are capitalized to mineral properties and depleted on a units-of-production basis over proven and probable reserves which are accessible by the Company. Management's estimate of gold price, recoverable proven and probable mineral reserves, operating, capital and reclamation costs are subject to risks and uncertainties affecting the recoverability of the Company's investment in mining properties.

k) Property, plant and equipment

Property, plant, and equipment are recorded at cost and depreciated over their estimated useful lives. This requires estimation of the useful life of the asset and its residual value. Property, plant, and equipment are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of property, plant, and equipment is not recoverable if the carrying amount exceeds the sum of the discounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a fixed asset exceeds its fair value. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in net income (loss) in the period in which it became known.

Property, plant, and equipment are recorded at historical cost and are amortized using the declining balance method over their estimated useful lives, as follows:

Buildings	4%
Motor vehicles	30%
Furniture and office equipment	20%
Plant and equipment	20%
Assets under finance lease	20%

2. Significant accounting policies (continued)

l) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statement of net income (loss) in the period in which they are incurred.

m) Impairment of non-financial assets

Property, plant and equipment and mineral properties are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in the consolidated statement of net income (loss).

n) Provisions

Provisions are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material, such as closure costs.

o) Share-based compensation plan

The Company has a share-based compensation plan as described in Note 13 and Note 14. The fair value based method of accounting is applied to all share-based compensation. The fair value of the share options granted is estimated on the date of grant using the Black-Scholes option-pricing model and is recorded as an expense over the applicable vesting period based on the number of awards expected to vest. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Any consideration paid on exercise of the share option is credited to share capital.

2. Significant accounting policies (continued)

p) Loss per share

Basic loss per share is calculated using the daily weighted average number of shares outstanding.

Diluted loss per share is calculated using the daily weighted average number of shares that would have been outstanding during the year had all dilutive potential common shares been issued at the beginning of the year, or when the underlying options or convertible securities were granted or issued, if later. The treasury share method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of options to acquire shares.

q) Inventory

Gold inventory, which includes gold bullion, gold contained in the milling circuit and in stockpiled ore on surface, is valued at the lower of cost and net realizable value. Costs include labour, equipment costs, and operating overhead. Material and supplies inventory is valued at the lower of cost and net realizable value on a weighted average cost basis.

r) Closure Costs

The Company recognizes the fair value of a liability for an asset retirement obligation when it is incurred, if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made when the asset retirement obligation is incurred, the liability will be recognized when a reasonable estimate of fair value can be made. Upon initial recognition of the estimate of the liability for an asset retirement obligation, a corresponding asset retirement cost is recognized by increasing the carrying amount of the, related asset, which is then amortized on the same basis as the related asset. After initial measurement, period-to-period changes in the estimate of the liability for an asset retirement obligation resulting from the passage of time, changes in market discount rates, and revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized as necessary. If the fair value of an asset retirement obligation cannot be reasonably estimated, this is generally because it is not practicable within constraints of timeliness or cost to reliably measure the fair values.

s) Recent accounting pronouncements

IFRS 9, “Financial instruments” (IFRS 9) was issued by the IASB and will replace IAS 39, “Financial Instruments: Recognition and Measurement” (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

The following standards are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The new standards are not expected to have an impact on the Company’s consolidated financial statements.

- IFRS 10, “Consolidated Financial Statements” (IFRS 10), replaces IAS 27, “Consolidated and Separate Financial Statements” and SIC-12, “Consolidation - Special Purpose Entities”. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

2. Significant accounting policies (continued)

- IFRS 11, "Joint Arrangements" (IFRS 11), supersedes IAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly Controlled Entities–Non-monetary Contributions by Venturers". IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 12, "Disclosure of Interests in Other Entities" (IFRS 12) combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27, "Separate Financial Statements" and IAS 28, "Investments in Associates and Joint Ventures", effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 13, "Fair Value Measurement" defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

3. Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statement requires management to use estimates and judgments that affect the reported amounts of assets and liabilities, as well as revenues and expenses. The following items are determined to be the most significant.

The policies, upon which the Company's consolidated financial statements depend, are those requiring estimates of proven and probable reserves, recoverable ounces there from, capitalization of mineral properties, assumptions of operating costs and future gold prices, the estimation of the tax basis of assets and liabilities and related deferred income tax assets and liabilities, and the measurement of income tax expense and indirect taxes. Estimates and assumptions affect the potential impairment of long-lived assets and the rate at which depletion and amortization are charged to net income (loss). In addition, management must estimate costs associated with mine reclamation and closure costs. Should adjustments become necessary, they would be reported in net income (loss) in the period in which it becomes known.

a) Mineral reserves

The process of estimating quantities of gold reserves is complex, requiring significant decisions in the evaluation of all available geological, geophysical, engineering and economic data. The data for a given ore body may also change substantially over time as a result of numerous factors, including, but not limited to, additional development activity, production history and the continual reassessment of the viability of ore bodies under various economic conditions. A material revision to existing reserve estimates could occur because of, among other things: revisions to geological data or assumptions; a change in the assumed gold prices; and the results of drilling and exploration activities. If estimates of reserves prove to be inaccurate, or a mining plan changes due to reductions in the price of gold or otherwise, resulting in a reduction in the reserves expected to be recovered, the Company could be required to write-down the recorded value of its plant and equipment and mine development costs, or to increase the amount of future depreciation, depletion and amortization expense, both of which would adversely affect the Company's net income (loss) and net assets.

3. Critical accounting estimates and judgments (continued)

b) Resources, Reserves and Production

The figures for mineral resources and reserves presented in this and other documents are estimates and no assurance can be given that the anticipated level of recovery and/or grades of reserves or resources will be realized. Establishment of a gold mineral reserve and development of a gold mine does not assure a profit on the investment or recovery of costs. In addition, geological complexity, mining hazards or environmental conditions could increase the cost of operations, and various field operating conditions may adversely affect the production from a mine. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological and mechanical conditions. While diligent mine supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels. Moreover, short-term operating factors relating to ore reserves and resources, such as the need for orderly development of an ore body or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period. The quantity of a given mineral tends to vary in all types of deposits. Due to the nature of drilling and building reserves, small variances both positive and negative must be anticipated. Mineral resources are estimated based on samples that may or may not reflect the actual deposit. The combined effect of these factors could have material effects (negative or positive) on the Company's business, financial condition and prospects.

c) Recoverable Values

The recoverability of deferred expenditures is dependent upon: the discovery of economically recoverable mineral reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals; and attaining profitable production.

4. Marketable securities

	December 31, 2012	December 31, 2011
GIC, interest at 1.20% - 2.30% (December 31, 2011 - 1.30% - 4.12%) paid annually, maturing April 2012 - July 2012 (December 31, 2011 - April 2012 - July 2012), $86,602 pledged as security for long-term debt.	$ 639,422	$ 3,110,275
Common shares - Option Agreements	719,000	165,000
Warrants - Option Agreements	173,067	8,000
Short term investments	8,303,883	15,881,453
Silver certificates	-	18
Gold certificates	-	604
	$ 9,835,372	**$ 19,165,350**

4. Marketable securities (continued)

Short term investments are comprised of the following types of securities: treasury bills, banker's acceptances, commercial paper, money market funds, guaranteed investment certificates, coupons and residuals, government bonds, term deposits and corporate bonds. The weighted yield to maturity is 1.20% (December 31, 2011 – 1.00%) with maturities from January 2013 to July 2017 (December 31, 2011 – January 2012 to February 2013).

The market value of the warrants was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 150% to 177%, risk free interest rate of 1.12%, and expected life of 165 to 689 days. Marketable securities have been designated at fair value through profit or loss, which are reflected on the consolidated statement of financial position at fair value.

At December 31, 2012, $13,016 (December 31, 2011 - $50,834) of accrued interest was included in the market value of the short term investments. For the year ended December 31, 2012, the Company recognized a gain of $27,348 (December 31, 2011 - $232,171) to adjust carrying value to published market value. These amounts are recognized as finance income on the consolidated statement of operations. Market value is determined by published price quotation and observable market inputs, including accrued interest.

5. Gold in process

	December 31, 2012	December 31, 2011
Ore stockpile	$ 1,637,000	$ 3,303,040
In process inventory	4,647,973	5,244,108
Finished product	1,404,003	1,004,823
	$ 7,688,976	$ 9,551,971

6. Property, plant and equipment

	Land	Building	Motor vehicles	Furniture and office equipment	Plant and equipment	Assets under finance lease	Projects in process	Total
Cost								
At December 31, 2011	$ 521,070	$ 15,782,294	$ 399,090	$ 1,547,570	$ 25,049,218	$ 7,221,625	$ 18,251,665	$ 68,772,532
Additions	125,000	1,062,940	25,127	20,384	-	8,025	14,284,604	15,526,080
Completed projects	-	3,125,016	135,720	201,332	12,559,921	10,165	(16,032,154)	-
At December 31, 2012	646,070	19,970,250	559,937	1,769,286	37,609,139	7,239,815	16,504,115	84,298,612
Depreciation								
At December 31, 2011	$ -	$ 1,337,291	$ 119,858	$ 679,699	$ 9,891,845	$ 2,038,333	$ -	$ 14,067,026
Depreciation charge	-	744,477	106,792	220,532	4,929,451	1,056,609	-	7,057,861
At December 31, 2012	-	2,081,768	226,650	900,231	14,821,296	3,094,942	-	21,124,887
Net book value								
December 31, 2011	**$ 521,070**	**$ 14,445,003**	**$ 279,232**	**$ 867,871**	**$ 15,157,373**	**$ 5,183,292**	**$ 18,251,665**	**$ 54,705,506**
At December 31, 2012	**$ 646,070**	**$ 17,888,482**	**$ 333,287**	**$ 869,055**	**$ 22,787,843**	**$ 4,144,873**	**$ 16,504,115**	**$ 63,173,725**

7. Mineral properties

	SG1	Rice Lake	Hinge	Cohiba	Total
Cost					
At December 31, 2011	$ 6,185,598	$ 66,588,321	$ 86,108,795	$ 3,942,116	$ 162,824,830
Additions	-	18,385,140	43,660,927	118,677	62,164,744
At December 31, 2012	6,185,598	84,973,461	129,769,722	4,060,793	224,989,574
Depletion and impairment					
At December 31, 2011	$ 661,555	$ 13,617,818	$ 20,523,414	$ -	$ 34,802,787
Depletion charge	-	5,811,855	35,429,817	-	41,241,672
At December 31, 2012	661,555	19,429,673	55,953,231	-	76,044,459
Net book value					
At December 31, 2011	**$ 5,524,043**	**$ 52,970,503**	**$ 65,585,381**	**$ 3,942,116**	**$ 128,022,043**
At December 31, 2012	**$ 5,524,043**	**$ 65,543,788**	**$ 73,816,491**	**$ 4,060,793**	**$ 148,945,115**

Mineral property development costs incurred to expand ore reserves are deferred and depleted on a units-of-production basis over proven and probable reserves. Revenue derived from mineral properties before full production during commissioning of a property is accounted for as a reduction of the cost of the property.

Prior to January 1, 2012, the Company's mineral properties were depleted on a units-of-production basis over the proven and probable reserves which were accessible by the Company. Effective January 1, 2012, the Company's mineral properties are depleted on a units-of-production basis over the proven and probable reserves and the portion of resources expected to be extracted economically by the Company. This change in estimate has been accounted for prospectively from January 1, 2012. An updated mineral resource and mineral reserve estimate was released during the second quarter and has been accounted for prospectively from April 1, 2012. As a result of these changes in estimate, the depletion expense for the year ended December 31, 2012 decreased by $22,350,368 as compared to the depletion expense that would have resulted under the former estimates.

8. Mining claims and options

Partner	Location	Agreement entered	December 31, 2012 Carrying Value	Commitment for option
None	Beresford Lake 100% interest in 7 claims	Apr 2004	$451,449 (Dec 31, 2011 - $451,449)	Commitments met as at December 31, 2012. 3% Net smelter return, may be bought down by optionor.
Greenbelt Gold Mines Inc.	3 km South of Rice Lake 50% interest in 31 claims	Jan 2005	$421,200 (Dec 31, 2011 - $421,200)	Commitments met as at December 31, 2012.
Strikepoint Gold Inc.	Rice Lake Environ, Manitoba 50 claims (100% interest) Dec 31, 2011 – 26 claims (50% interest)	Sep 2009	$2,500,000 (Dec 31, 2011 - $200,000)	None.
Laurion Mineral Exploration Properties	Timmins Ontario 31.5% interest in Davidson-Tisdale property and 100% ownership in North Tisdale property	Jan 2010	$nil (Dec 31, 2011 - $4,450,000)	North Tisdale property subject to a 2% net smelter royalty.
None	Rice Lake Environ, Manitoba 100% interest in 4 claims	Feb 2010	$270,800 (Dec 31, 2011 - $270,800)	Subject to a 3% net smelter royalty, may be bought down by optionor.
SGX Resources Inc.	Timmins Ontario 50% interest in 18 claims	Sep 2010	$589,500 (Dec 31, 2011 - $589,500)	The properties have a 5% net profits interest with Talisman Energy Inc., and a net profits interest acquisition agreement with Falconbridge Limited where Falconbridge Limited is entitled to a one-time cash payment of 0.1% of the gold price set forth in a feasibility study leading to production on the claims multiplied by the number of recoverable ounces of gold identified in the feasibility study due at the commencement of commercial production as defined by the agreement. Falconbridge Limited is also entitled to a 0.5% net smelter royalty on all ounces produced over and above those identified in the feasibility study.
Cougar Minerals Corp.	Rice Lake, Environ 80% interest in 18 claims	June 2011	$nil (Dec 31, 2011 - $nil)	An exploration commitment of $1,500,000 over a four year period and a subscription commitment of $600,000 units of Cougar over a 3 year period.
Wildcat Exploration Ltd.	Rice Lake, Environ 80% interest in 122 claims	Aug 2011	$500,000 (Dec 31, 2011 - $250,000)	An exploration commitment of $5,100,000 over a four year period and a subscription commitment of $750,000 common shares of Wildcat over a 3 year period.
Creighton Claims	Timmins, Ontario 50% interest in 1 claim	Oct 2011	$20,000 (Dec 31, 2011 - $20,000)	An exploration commitment of $575,000 over a three year period. 2.2% net smelter return with the right to buy back 1% for $1,000,000.

8. Mining claims and options (continued)

Partner	Location	Agreement entered	December 31, 2012 Carrying Value	Commitment for option
Canadian Arrow Mines Ltd.	Rainy River, Ontario 80% interest in 135 claims	June 2012	$nil (Dec 31, 2011 - $nil)	An exploration commitment of $1,500,000 over a four year period. 2% net smelter return with the right to buy back 1% for $1,000,000.
Harvest Gold Corporation	Rice Lake, Environ 100% interest in 1 claims	July 2012	$225,000 (Dec 31, 2011 - $nil)	Purchase commitment to pay an additional $225,000 upon commercial production of gold from the property.
None	Northern Ontario 100% interest in 124 claims	Sept 2012	$10,754,750 (Dec 31, 2011 - $nil)	None.
Rubicon Minerals	Northern Ontario 100% interest in 25 claims	Oct 2012	$43,100 (Dec 31, 2011 - $nil)	Subject to a 1.5% net smelter royalty, may be bought down by optionor.
Total			$15,775,799 (Dec 31, 2011 - $6,652,949)	

9. Investment in associate

	December 31, 2012	December 31, 2011
Investment in associate, beginning of period	$ 1	$ 1
Subscription for share capital	5,030,000	483,350
Equity loss of associate	(5,030,000)	(483,350)
Investment in associate, end of the period	**$ 1**	**$ 1**

The investment in associate relates to SGX Resources Inc. which began trading on the TSX Venture exchange on April 20, 2010 under the symbol “SXR”. The Company has not guaranteed obligations of SGX Resources Inc. and is not otherwise committed to provide further financial support. Should SGX Resources Inc. return to profitability, the Company will record its proportionate share of income to the extent the income exceeds unrecognized cumulative losses. Unrecognized period and cumulative losses to December 31, 2012 were approximately $615,000 (December 31, 2011 - $2,809,000).

The following summarizes financial information about the Company’s share of assets, liabilities, revenue and loss of its associate:

	December 31, 2012	December 31, 2011
Assets	$ 4,006,000	$ 887,000
Liabilities	$ 654,000	$ 312,000
Revenue	$ -	$ -
Loss	$ (2,780,000)	$ (2,267,000)
Percentage held	29%	34%

10. Accounts payable and accrued liabilities

	December 31, 2012	December 31, 2011
Trade payables	$ 14,419,489	$ 8,648,987
Payroll and other compensation	2,131,495	3,003,079
Accruals and other payables	2,312,829	1,694,381
	$ 18,863,813	$ 13,346,447

11. Long-term debt

	December 31, 2012	December 31, 2011
Term loans	$ 754,858	$ 1,276,512
Finance lease liabilities	2,360,826	3,458,990
Total long-term debt	**3,115,684**	**4,735,502**
Total current portion	1,451,041	1,619,818
Total long-term portion	**$ 1,664,643**	**$ 3,115,684**

Long-term debt is repayable by blended monthly payments of $4,817 to $62,060 with interest rates ranging from 2.50% to 6.90% (December 31, 2011 – 2.50% to 8.86%), a weighted average interest rate of 5.72% (December 31, 2011 – 5.18%) and is secured by specific equipment with maturities ranging from February 2014 to December 2015 (December 31, 2011 – January 2012 to December 2015).

11. Long-term debt (continued)

a) Term loans

Term loans have interest rates ranging from 6.81% to 6.90% (December 31, 2011 – 6.81% to 8.86%) and a weighted average interest rate of 6.84% (December 31, 2011 – 6.94%). Principal due on term loans by year end and in aggregate is approximately as follows:

December 31, 2013	$	363,618
December 31, 2014		364,588
December 31, 2015		26,652
	$	754,858

b) Finance lease liabilities

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Finance leases have interest rates ranging from 2.50% to 6.75% (December 31, 2011 – 2.50% to 6.75%) and a weighted average interest rate of 5.36% (December 31, 2011 – 5.35%). Principal due on finance leases by year end and in aggregate is approximately as follows:

December 31, 2013	$	1,087,423
December 31, 2014		914,358
December 31, 2015		359,045
	$	2,360,826

Interest amounting to $207,869 (December 31, 2011 - $157,177) relating to the lease of capital assets are included in finance costs in the consolidated statement of net income (loss).

12. Asset retirement obligation

	December 31, 2012	December 31, 2011
Balance at beginning of year	$ 3,274,549	$ 3,133,233
Accretion	4,723	19,716
Change in estimate	5,606	121,600
Balance at end of year	**$ 3,284,878**	**$ 3,274,549**

The mine operates under Environmental License No. 2161 S1 RR issued by Manitoba Conservation in March 1996 and amended in September 1998. The mine also has a closure and rehabilitation plan that has been accepted by Manitoba Industry, Trade, and Mines. A closure plan for the Bissett Gold Mine was submitted on September 1, 2001. The plan covers all aspects of rehabilitation of the mine including post closure monitoring.

The Company's asset retirement obligations consist primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for earthworks, including detoxification and re-contouring, re-vegetation, water treatment and demolition. In determining the estimated costs, the Company considers such factors as changes in laws and regulations and requirements under existing permits. Such analyses are performed on an ongoing basis. The total estimated cost for the closure and post closure monitoring is $3,300,000.

13. Share capital

Authorized: Unlimited number of common shares

Issued and fully paid, no par value: 335,230,029 common shares (December 31, 2011 – 312,676,841)

The Company's board of directors and shareholders have approved a stock option plan, the purpose of which is to provide employees, consultants, and directors of the Company with the opportunity to participate in the growth and development of the Company. The number of common shares reserved for issuance under the stock option plan is 33,523,003 (December 31, 2011 – 31,267,684).

	December 31, 2012		December 31, 2011	
	(#)	($)	(#)	($)
Balance, beginning of the year	312,676,841	376,158,427	300,408,146	344,275,207
Private placements	10,715,000	15,001,000	7,957,700	21,883,675
Options exercised	250,000	510,514	4,275,995	9,877,595
Non monetary issues	11,588,188	13,024,450	35,000	121,950
Balance, end of the year	**335,230,029**	**404,694,391**	**312,676,841**	**376,158,427**

14. Options

During the year ended December 31, 2012, the fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for the grants: dividend yield of 0% (December 31, 2011 – 0%), expected volatility of 64% to 65% (December 31, 2011 – 61% to 63%), risk free interest rate of 1.12% to 1.32% (December 31, 2011 – 1.30% to 2.38%), and expected life of 1,825 days (December 31, 2011 – 1,825 days). The estimated forfeiture rate for options is 5.83% (December 31, 2011 – 5.10%).

A summary of the status of the Company's share option plan as at December 31, 2012 and December 31, 2011 and changes during the periods then ended are as follows:

	December 31, 2012	Average Price ($)	December 31, 2011	Average Price ($)
Options, beginning of the year	14,450,009	2.63	14,401,016	2.16
Options granted	5,670,000	1.47	5,525,000	2.68
Options exercised	(250,000)	1.25	(4,275,995)	1.32
Options expired	(672,661)	3.07	(866,676)	1.64
Options forfeited	(675,007)	2.69	(333,336)	3.02
Options, end of the year	**18,522,341**	**2.28**	**14,450,009**	**2.63**
Options vested, end of the year	**8,658,955**	**2.45**	**5,613,308**	**2.27**
Weighted average remaining life (years)	**2.82**		**3.24**	

14. Options (continued)

Exercise Price	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Oustanding Strike Price	Vested	Remaining Vested Contractual Life	Weighted Average Vested Strike Price
$0 to 1	800,000	4.66	$ 0.78	-	-	$ -
1 to 2	8,050,673	2.70	1.47	3,355,674	0.65	1.31
2 to 3	3,616,668	3.18	2.50	1,483,315	3.03	2.49
3 to 4	6,005,000	2.52	3.42	3,786,633	2.40	3.43
4 to 5	50,000	2.38	4.36	33,333	2.38	4.36
$1 to 5	**18,522,341**	**2.82**	**$ 2.28**	**8,658,955**	**1.83**	**$ 2.45**

15. Contributed surplus

Changes in contributed surplus consisted of the following:

	December 31, 2012	December 31, 2011
Contributed surplus, beginning of the year	$ 15,199,517	$ 12,356,389
Options issued	6,346,517	7,651,735
Options exercised	(198,014)	(4,221,870)
Options expired	(520,028)	(460,986)
Options forfeited	(1,115,615)	(125,751)
Contributed surplus, end of the year	**$ 19,712,377**	**$ 15,199,517**

16. Operations

	December 31, 2012	December 31, 2011
Mine production costs	$ 73,248,283	$ 60,763,453
Amortization of plant and equipment	7,057,861	4,711,243
Depletion of mineral properties	41,241,672	18,251,553
	$ 121,547,816	**$ 83,726,249**

17. General and administrative

	December 31, 2012	December 31, 2011
Share-based compensation	$ 5,826,489	$ 7,525,984
Other	10,459,770	8,868,594
	$ 16,286,259	**$ 16,394,578**

18. Finance income and costs

	December 31, 2012	December 31, 2011
Royalty indemnification fee	$ 255,152	$ 255,152
Royalty interest income	8,895,314	7,869,072
Investment income	112,935	349,327
Finance income	**9,263,401**	**8,473,551**
Royalty expense	8,895,314	7,869,073
Finance income - net	**$ 368,087**	**$ 604,478**
Interest expense	$ 386,360	$ 424,657
Accretion of asset retirement obligation	4,723	19,716
Finance costs	**$ 391,083**	**$ 444,373**

19. Income taxes

The provision for income taxes reflects an effective tax rate, which differs from the combined Canadian federal and provincial corporate tax rates for the following reasons:

	December 31, 2012	December 31, 2011
Loss for the period before income taxes	$ 17,462,518	$ 10,817,923
Combined statutory tax rate	27.00%	28.50%
Income tax recovery based on statutory rate	4,714,880	3,083,108
Valuation allowance and change in estimate	(440,034)	2,644,265
Income tax recovery on flow-through shares	**$ 4,274,846**	**$ 5,727,373**

19. Income taxes (continued)

Significant components of the Company's deferred income tax assets and liabilities are as follows:

	December 31, 2012	December 31, 2011
Deferred income tax assets:		
Non-capital losses carried forward	$ 27,510,000	$ 24,868,000
Canadian exploration and development expense pools	19,971,000	16,853,000
	47,481,000	41,721,000
Deferred income tax liabilities		
Temporary taxable differences	43,279,000	34,836,000
Net deferred income tax asset	4,202,000	6,885,000
Valuation allowance	(4,202,000)	(6,885,000)
	$ -	**$ -**

As at December 31, 2012, the Company had non-capital loss carry forward amounts available for income tax purposes of $101,829,000 that expire as follows:

December 31, 2012	Expiry
$ 985,000	December 31, 2013
2,086,000	December 31, 2014
1,798,000	December 31, 2015
3,207,000	December 31, 2026
4,558,000	December 31, 2027
32,460,000	December 31, 2028
6,958,000	December 31, 2029
25,520,000	December 31, 2030
24,257,000	December 31, 2032
$ 101,829,000	

The Company has issued flow-through shares to finance certain of its exploration activities. The Company intends to renounce expenditures totaling the amount of the purchase price of the flow-through shares issued to the purchasing shareholders and as a result, tax deductibility of these costs will not be available to the Company. As at December 31, 2012, the Company had an obligation to spend $16,400,000 of flow-through capital that was already renounced to shareholders (December 31, 2011 - $8,364,000).

At December 31, 2012 the Company reported $73,966,000 (December 31, 2011 - $56,175,000) of unused cumulative Canadian exploration and development costs available to offset future taxable income. The tax benefits pertaining to these expenses are available for carry forward indefinitely.

20. Related party transactions

Wynne Mining Ltd., Wynne Drilling Ltd., Wynne's Place Ltd., and Hotel San Antonio

	December 31, 2012	December 31, 2011
Accounts payable, beginning of the period	$ 222,140	$ 484,172
Expenses at exchange amount	15,915,347	17,557,070
GST on services	684,012	806,559
Payments issued	(15,754,812)	(18,625,661)
Accounts payable, end of the year	**$ 1,066,687**	**$ 222,140**

During the year, the Company purchased goods and services for the sum of $15,915,347 (December 31, 2011 - $17,557,070) from Wynne Mining Ltd., Wynne's Place Ltd., Hotel San Antonio, and Wynne Drilling Ltd., (corporations controlled by a Director and Chairman of the Company). These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These services were expensed or capitalized in the period, forming part of direct exploration expenses, general & administrative expenses, or operational expenses on the Company's consolidated statement of net income (loss). The amounts due to related parties on December 31st, 2012 of $1,066,687 (December 31, 2011 – $222,140) are included in the accounts payable on the Company's consolidated statement of financial position.

The Company undertakes transactions in the normal course of business with other related parties. These transactions are recognized at the exchange amount. General and administrative expenses for the year ended December 31st, 2012 include $nil (December 31, 2011 - $45,500) for fees paid to companies controlled by directors for various consulting and managerial work. Exploration expense includes $nil paid to a company controlled by former directors for work done according to a mining claims and option agreement between the parties (December 31, 2011 - $636,300).

Accounts receivable includes $217,550 (December 31, 2011 - $141,950) due from SGX Resources Inc. The amount is the value of common shares of the Company issued on behalf of SGX Resources Inc.

During the year, mining claims were sold to SGX Resources Inc. for consideration of 8,060,000 common shares of SGX Resources Inc. at a deemed price of $0.50 per share. The carrying value of the mining claims was $4,450,000, resulting in a loss of $420,000 which has been recorded in general and administrative expenses.

During the year, the Company also entered into an option agreement with Canadian Arrow Mines Ltd. ("Canadian Arrow") to earn an 80% undivided interest in all precious metals including, but not limited to, gold and silver but specifically excluding platinum and palladium, contained on Canadian Arrow's properties. Under the terms of the option agreement, the Company purchased 5,000,000 units of Canadian Arrow at price of $0.10 per unit. Each unit will be comprised of one common share of Canadian Arrow and a half of one share purchase warrant. Each full warrant will entitle the Company to purchase one common share of Canadian Arrow for an exercise price of $0.20 for a period up to two years from the date of the issuance of the warrant. The Company also committed to spend a minimum of $1,500,000 over a four-year period on exploration activities. The Company's President and Chief Executive Officer is a non-executive director of Canadian Arrow.

20. Related party transactions (continued)

Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly, and include any director (whether executive of otherwise) of the Company.

	December 31, 2012	December 31, 2011
Salaries and other short-term employee benefits	$ 2,264,000	$ 1,459,499
Share-based payments	3,478,560	4,744,894
	$ 5,742,560	$ 6,204,393

21. Net royalty obligation

	December 31, 2012	December 31, 2011
Restricted accrued interest	$ 7,784,644	$ 7,724,115
Promissory note	128,796,949	127,805,938
	$ 136,581,593	$ 135,530,053
Current portion of deferred revenue	$ 255,152	$ 255,152
Current portion of royalty obligation	14,865,313	7,843,774
Deferred revenue	625,650	880,803
Royalty obligation	122,696,797	128,666,795
	$ 138,442,912	$ 137,646,524
Net royalty obligation	**$ 1,861,319**	**$ 2,116,471**

The annual royalties on the 2007 royalty sale of first tier production levels are payable at rates ranging from $72.05 to $98.20 per ounce of gold produced, and the annual royalties on the 2007 royalty sale of second tier production levels are payable at rates ranging from $124.65 to $169.89 per ounce of gold produced during the period of the agreement to the later of December 31, 2017 and five years after the end of commercial production from the Rice Lake Mining Complex. The annual royalties on the 2006 royalty sale of first tier production levels are payable at rates ranging from $29.26 to $155.36 per ounce of gold produced, and the annual royalties on the 2006 royalty sale of second tier production levels are payable at rates ranging from $50.62 to $268.77 per ounce of gold produced during the period of the agreement to the later of December 31, 2016 and five years after the end of commercial production from the Rice Lake Mining Complex. The annual royalties on the 2005 royalty sale of first tier production levels are payable at rates ranging from $5.00 to $50.00 per ounce of gold produced, and the annual royalties on the 2005 royalty sale of second tier production levels are payable at rates ranging from $8.65 to $86.50 per ounce of gold produced during the period of the agreement to the later of December 31, 2015 and five years after the end of commercial production from the Rice Lake Mining Complex.

During the term of the agreements, the Company is entitled to have amounts held under the restricted promissory notes used to make payments under the royalty obligations. Under certain circumstances, 100% subsidiaries of the Company will have the right to purchase ("Call") the equity of the holder of the royalties or right to receive the royalties at an amount no greater than the fair market value thereof at the time of the Call. The Call price will be paid from the balance owing to the Company under the promissory note.

21. Net royalty obligation (continued)

Under certain circumstances, the purchaser of the royalties will have the right to sell ("Put") their interest in the royalty to the Company at an amount no greater than the fair market value thereof at the time of the Put. However, such right is subject to the subsidiaries of the Company's pre-emptive right to exercise the Call in advance of any Put being exercised and completed. In addition to the royalty, the Company has granted a net profit interest ("NPI") for the years 2011 to 2017 inclusive. Under the commitment, minimum gold price thresholds of $875, $1,075, and $1,275 per ounce trigger NPI levels of 6%, 6.75% and 7% respectively. Under the 2005 and 2006 commitments, minimum gold prices of $875, $1,075, and $1,275 per ounce trigger NPI levels of 1%, 2%, and 3% respectively. No NPI is payable until the Company recovers its capital invested including reserve and interest charges.

22. Net loss per share

The Company determines basic loss per common share on the weighted average number of outstanding common shares for the period.

Net loss available to common shareholders for the year ended December 31, 2012 is $13,187,672 (December 31, 2011 - $5,090,550). Outstanding options are anti-dilutive.

	December 31, 2012	December 31, 2011
Weighted average basic and diluted shares outstanding	324,862,278	309,069,325

The following securities were not included in the diluted net income per share calculation as the effect would have been anti-dilutive:

	Exercise / conversion price	Number of shares if converted or exercised
Share options - December 31, 2012	$ 2.28	18,522,341
Share options - December 31, 2011	$ 2.63	14,450,009

23. Risk management and fair values

The Company's risk management policies are typically manifested as part of the day to day management of operations. As management becomes aware of risks, the functioning of control procedures is evaluated both directly and through consultation with employees, consultants and third parties with a judgment on the cost and benefit of different courses of action as well as the impact on risk and fair value. The Company has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Company, management considers the avoidance of undue concentrations of risk. These risks include, and the actions taken to manage them are as follows:

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial commitments as they become due. The Company's main sources of liquidity are its operations and external borrowings and issuance of capital. The Company ensures that there is sufficient working capital and available credit facilities to meet its ongoing current obligations.

23. Risk management and fair values (continued)

The following are the estimated maturities of the Company's financial liabilities from continuing operations:

	Total	1 year	2 years	3 years
Accounts payable and accrued liabilities	$ 18,863,813	18,863,813	-	-
Term Loans	754,858	363,618	364,588	26,652
Finance Leases	2,360,826	1,087,423	914,358	359,045
	$ 21,979,497	**$ 20,314,854**	**$ 1,278,946**	**$ 385,697**

The Company's royalty obligation will be funded by the restricted promissory note.

Credit risk

Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company has credit policies to address credit risk on accounts receivable, which may include the analysis of the financial position of the debtor and review of credit limits. The Company also may review credit history before establishing credit and reviews credit performance. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

Market Risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. In general, the risk of investing cash equivalents into fixed interest rate investments is mitigated by the short terms in which the investments mature.

The Company primarily invests in high credit quality debtors including the Government of Canada and Provinces of Canada.

The Company does not recognize any allowance for doubtful accounts and has no past due receivables.

Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange income or expense. The Company may enter into forward exchange contracts to manage part of the foreign exchange risk exposures relating to customer accounts receivable balances and trade accounts payable denominated in U.S. currency.

23. Risk management and fair values (continued)

Other price risk

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. Gold prices are affected by numerous factors such as the sale or purchase by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the US dollar and other foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold-producing countries throughout the world.

Fair values

The fair values of the Company's current financial assets and liabilities (cash, accounts receivable, bank indebtedness, and accounts payable), approximate their recorded values as at period end due to their short-term nature. The fair value of the marketable securities is based on a published source and observable market inputs. Management has estimated that the fair value of the collateral deposit approximates its book value.

The fair value of the Company's long-term debt (excluding finance leases) for the year ended December 31, 2012 is $754,858 (December 31, 2011 - $1,276,512). The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms and conditions.

The cash flows associated with the net royalty obligation are equal. The net fair value of the net royalty obligation is $nil (December 31, 2011 - $nil).

The fair value hierarchy of financial instruments measured at fair value on the consolidated statement of financial position is as follows:

	December 31, 2012	December 31, 2011
Financial assets		
Marketable securities (Level 1)	$ 3,039,192	$ 9,183,616
Marketable securities (Level 2)	6,796,180	9,981,734
	$ 9,835,372	$ 19,165,350

Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at year-end may not represent fair values at any other date. The determination of fair value is also affected by the use of judgment and by uncertainty.

24. Capital management

The Company's total capital of $236,087,491 (December 31, 2011 - $218,030,062) consists of $404,694,391 (December 31, 2011 - $376,158,427) of share capital, $19,712,377 (December 31, 2011 - $15,199,517) of contributed surplus and an offsetting accumulated deficit of $191,434,961 (December 31, 2011 - $178,063,384). The majority of capital funding has therefore come by way of share issuance. The Company also considers its long term debt as part of its capital structure in the amount of $3,115,684 (December 31, 2011 - $4,735,502).

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company sets the price of capital in proportion to risk and market levels for similar products. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company can issue new shares, return shares to shareholders, sell assets, buy back debt or issue new debt and / or any combination thereof.

The Company monitors capital from time-to-time using a variety of measures. Monitoring procedures are typically performed as a part of the overall management of the Company's operations. The Company's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. The requirements and terms of sources of capital cannot be predicted and change in ways the Company cannot predict.

25. Commitments

The Bissett mine operates under a Mining Lease (ML 063) granted by the Manitoba Industry, Trade and Mines for a period of 21 years commencing April 1, 1992. A license fee of $20,957 is payable annually to the Province of Manitoba. The mineral lease under which the Company operates its mines expires on March 31, 2013. The Company has applied for a renewal of the mineral lease and has received verbal confirmation from the Manitoba government that the renewal of the mineral lease will be received prior to April 1, 2013. In the event that the Company were not to receive a renewal of the mineral lease in a timely fashion, the operations and results of the Company would be negatively impacted.

In addition, the Company is potentially subject to regular audits from federal and provincial tax authorities relating to income, capital, and commodity taxes and as a result of these audits may receive assessments or reassessments. The Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a material adverse impact on the Company's financial position, results of operations, or the ability to carry on any of its business activities.

To satisfy the closure plan described in Note 12, the Company has agreed to provide a cheque, bond, or letter of credit in the amount of $40,000 as well as a pledge of the current estimated salvage value of mine assets to cover the calculated value of mine closure and post closure monitoring costs.

The Company has entered into lease agreements for the use of office space. The leases expire on September 30, 2016. Minimum lease payments over the next four years are as follows:

December 31, 2013	$ 174,593
December 31, 2014	173,117
December 31, 2015	173,117
December 31, 2016	123,391

26. Defined contribution pension plan

The Company provides a defined contribution plan for its employees. The Company is responsible for contributing 3% of the employees' earnings to the plan. The Company's contributions to the plan, which are recognized in the year earned by the employee and treated in the same manner as the related compensation, were $696,630 (December 31, 2011 - $609,875).

27. Net change in non-cash working capital

	December 31, 2012	December 31, 2011
Accounts receivable	$ 4,171,904	$ (6,491,858)
Supply inventory	(2,143,089)	(2,428,749)
Gold in process	1,862,995	(3,433,051)
Prepaid expenses	(173,129)	(80,630)
Net royalty obligation	(255,152)	(255,151)
Accounts payable	5,517,366	2,363,386
	$ 8,980,895	**$ (10,326,053)**

28. Subsequent events

In the subsequent period, the Company closed a bought deal offering of 50,000 convertible unsecured subordinated debentures at a price of $1,000 per debenture for total gross proceeds of $50,000,000. The debentures mature on March 31, 2018, unless earlier redeemed, and bear interest, accruing, calculated and payable semi-annually in arrears on March 31 and September 30 of each year, at a rate of 8.00% per year. The debentures are convertible at the holder's option into common shares of the Company at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date fixed for redemption of the debentures at a conversion price of $0.50 per Common Share, subject to adjustment in certain circumstances. The net proceeds of the offering will be used to fund continued development of the Company's mineral properties, in particular the Rice Lake Complex, and for general working capital purposes.

Also, in the subsequent period, the Company entered into a line of credit agreement whereby up to $10,000,000 could be drawn down. The line was secured by a general security agreement over assets of the Company, which has since been discharged. There was a standby fee of 2% per year. The Corporation did not draw down any funds under the terms of the credit agreement. As part of the consideration for the agreement, the Company granted a call option whereby the lender was granted a one-time option to purchase 4,000 troy ounces of gold at a price of USD $1,665 per troy ounce on March 26, 2013.