CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2012 and 2011

In Canadian dollars

April 26, 2013

Independent Auditor's Report

To the Shareholders of
Maya Gold & Silver Inc.

We have audited the accompanying consolidated financial statements of Maya Gold & Silver Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise 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.

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Maya Gold & Silver Inc. and its subsidiaries as at December 31, 2012 and 2011 and their financial performance and their 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 2 in the consolidated financial statements which describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Maya Gold & Silver Inc's ability to continue as a going concern.

PricewaterhouseCoopers LLP[1]

[1]CPA auditor, CA, public accountancy permit No. A122718

Maya Gold & Silver Inc.
Consolidated Statements of Financial Position
(in Canadian dollars)

	December 31, 2012	December 31, 2011
	$	$
ASSETS		
Current		
Cash and cash equivalents	2,788,597	1,905,421
Marketable securities (Note 6)	1,732,347	-
Sales taxes receivable	83,771	44,962
Advance to a related party (Note 18)	201,684	-
Prepaid expenses	36,986	32,231
	4,843,385	1,982,614
Non-current		
Restricted short-term investment (Note 5)	20,240	20,040
Property, plant and equipment (Note 7)	541,833	378,452
Exploration and evaluation assets (Note 8)	18,350,509	9,347,043
TOTAL ASSETS	23,755,967	11,728,149
LIABILITIES		
Current		
Accounts payable and accrued liabilities	431,360	721,345
Balance of purchase price payable (Note 8 a))	3,292,800	593,500
Debentures (Note 9)	1,760,000	-
	5,484,160	1,314,845
Non-current		
Provision for environmental remediation	150,000	-
Debentures (Note 9)	-	700,000
Deferred income taxes (Note 13)	-	132,000
TOTAL LIABILITIES	5,634,160	2,146,845
EQUITY		
Share capital (Note 10)	24,652,678	14,391,012
Share purchase warrants (Note 10)	3,076,865	2,748,943
Share purchase options (Note 11)	860,375	529,563
Contributed surplus	1,689,107	252,098
Deficit	(11,963,549)	(8,340,312)
Accumulated other comprehensive loss (Note 3)	(193,669)	-
TOTAL EQUITY	18,121,807	9,581,304
TOTAL LIABILITIES AND EQUITY	23,755,967	11,728,149

Going concern (Note 2), Commitments (Note 17), Events after the reporting date (Note 19)

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

On behalf of the Board,

/s/ Guy Goulet	*/s/ Martin Wong*
Guy Goulet, CEO and Director	Martin Wong, Director

Maya Gold & Silver Inc.
Consolidated Statements of Comprehensive Loss
(in Canadian dollars)

	Year ended December 31, 2012	Year ended December 31, 2011
	$	$
		(Note 3)
Expenses and other items		
Management and administration (Note 12)	**1,714,309**	1,938,106
Investor relations and corporate development	**592,555**	530,630
General exploration and evaluation	**-**	313,203
Impairment of exploration and evaluation assets	**175,893**	-
Loss on foreign exchange	**222,954**	68,934
Operating loss	**2,705,711**	2,850,873
Change in fair value of marketable securities (Note 6)	**(141,416)**	-
Finance expense related to debentures	**70,164**	4,200
Finance income	**-**	(392)
Loss before income taxes	**2,634,459**	2,854,681
Deferred income tax expense (recovery) (Note 13)	**(353,194)**	(14,000)
Net loss	**2,281,265**	2,840,681
Other comprehensive loss		
Change in foreign currency translation of foreign subsidiary (Note 3)	**34,600**	-
Change in fair value of marketable securities (Note 6)	**159,069**	-
	193,669	-
Comprehensive loss	**2,474,934**	2,840,681
Basic and diluted loss per share	**0.03**	0.06
Weighted average number of shares - basic and diluted	**77,461,442**	48,775,555

Going concern (Note 2)

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

Maya Gold & Silver Inc.
Consolidated Statements of Changes in Equity
(in Canadian dollars)

	Number of issued and outstanding shares	Share capital	Share purchase warrants	Share purchase options	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total equity
		$	$	$	$	$	$	$
Balance as at January 1, 2012	60,546,967	14,391,012	2,748,943	529,563	252,098	(8,340,312)	-	9,581,304
Private placements (Note 10)	46,708,000	10,180,816	1,231,184	-	-	-	-	11,412,000
Share issue costs (Note 10)	385,000	80,850	33,684	-	-	(620,715)	-	(506,181)
Effect of warrants re-pricing (Note 10)	-	-	721,257	-	-	(721,257)	-	-
Expiry of warrants (Note 10)	-	-	(1,644,563)	-	1,644,563	-	-	-
Deferred income tax	-	-	-	-	(221,194)	-	-	(221,194)
Expiry of agent options (Note 10)	-	-	(13,640)	-	13,640	-	-	-
Share-based payments (Note 11)	-	-	-	330,812	-	-	-	330,812
	107,639,967	24,652,678	3,076,865	860,375	1,689,107	(9,682,284)	-	20,596,741
Net loss for the year	-	-	-	-	-	(2,281,265)	-	(2,281,265)
Other comprehensive loss							(193,669)	(193,669)
Comprehensive loss for the year	-	-	-	-	-	(2,281,265)	(193,669)	(2,474,934)
Balance as at December 31, 2012	**107,639,967**	24,652,678	3,076,865	860,375	1,689,107	(11,963,549)	(193,669)	18,121,807
Balance as at January 1, 2011	**40,633,308**	**8,939,112**	**1,589,413**	**373,618**	**209,287**	**(4,998,390)**	**-**	**6,113,040**
Private placements (Note 10)	17,119,312	4,396,911	966,779	-	-	-	-	5,363,690
Units issued in lieu of bonus payment (Note 10)	666,667	224,475	75,525	-	-	-	-	300,000
Share issue costs (Note 10)	-	-	64,478	-	-	(401,241)	-	(336,763)
Shares issued for mining properties (Note 10)	2,055,555	797,223	-	-	-	-	-	797,223
Exercise of agent options (Note 10)	22,125	10,291	(1,441)	-	-	-	-	8,850
Exercise of warrants (Note 10)	50,000	23,000	(3,000)	-	-	-	-	20,000
Effect of warrants extension (Notes 3 and 10)	-	-	100,000	-	-	(100,000)-	-	-
Expiration of agent options (Note 10)	-	-	(42,811)		42,811	-	-	-
Share-based payments (Note 11)	-	-	-	155,945	-	-	-	155,945
	60,546,967	14,391,012	2,748,943	529,563	252,098	(5,499,631)	-	12,421,985
Net and comprehensive loss for the year	-	-	-	-	-	(2,840,681)	-	(2,840,681)
Balance as at December 31, 2011	**60,546,967**	14,391,012	2,748,943	529,563	252,098	(8,340,312)	-	9,581,304

Going concern (Note 2)

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

Maya Gold & Silver Inc.
Consolidated Statements of Cash Flows
(in Canadian dollars)

	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows provided by (used in)	**$**	$
OPERATING ACTIVITIES		
Net loss	**(2,281,265)**	(2,840,681)
Adjustments		
Share-based payments	**330,812**	155,945
Depreciation	**4,054**	5,552
Impairment of exploration and evaluation assets	**175,893**	-
Deferred income tax recovery	**(353,194)**	(14,000)
Unrealized loss on foreign exchange	**194,867**	-
Change in fair value of marketable securities	**(141,416)**	-
Bonus paid through issuance of units	**-**	300,000
Changes in working capital items (Note 16)	**(265,013)**	402,290
	(2,335,262)	(1,990,894)
INVESTING ACTIVITIES		
Restricted short-term investment	**(200)**	(40)
Acquisition of property, plant and equipment	**(250,000)**	(787)
Increase in exploration and evaluation assets	**(6,539,577)**	(2,209,203)
	(6,789,777)	(2,210,030)
FINANCING ACTIVITIES		
Issuance of shares and warrants, net of issue costs	**8,945,819**	5,026,927
Exercise of warrants and agent options	**-**	28,850
Issuance of debentures	**1,000,000**	700,000
	9,945,819	5,755,777
Effect of exchange rate changes on cash held in foreign currencies	**62,396**	-
Net increase in cash and cash equivalents	**883,176**	1,554,853
Cash and cash equivalents, beginning of year	**1,905,421**	350,568
Cash and cash equivalents, end of year	**2,788,597**	1,905,421

Going concern (Note 2)

Supplemental cash flow information (Note 16)

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

1. NATURE OF OPERATIONS AND GENERAL INFORMATION

Maya Gold & Silver Inc. ("Maya") was incorporated on December 19, 2007 under the Canada Business Corporations Act and is listed on the TSX Venture Exchange ("TSXV") under the symbol "MYA". Maya's registered office is located at Suite 207, 10 de la Seigneurie Blvd. East, Blainville, Quebec, Canada.

Maya and its subsidiaries (the "Corporation") are at the exploration and evaluation stage and their operations include the acquisition, exploration, evaluation and development of mining properties. To date, the Corporation has not earned any revenue from mining operations.

The Corporation has not yet determined whether its mineral properties contain ore resources that are economically recoverable. The recoverability of amounts shown as exploration and evaluation assets is dependent upon the existence of reserves on these properties, the ability of the Corporation to obtain necessary financing to complete the development of those reserves and upon future profitable production from these reserves or sufficient proceeds from their disposal thereof. The Corporation will periodically have to raise additional funds to continue operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

The Board of Directors approved these consolidated financial statements on April 26, 2013.

2. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt upon the Corporation's ability to continue as a going concern as described in the following paragraph, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

For the year ended December 31, 2012, the Corporation reported a loss of $2,281,265 ($2,840,681 in 2011) and a comprehensive loss of $2,474,934 ($2,840,681 in 2011) and has an accumulated deficit of $11,963,549 at December 31, 2012 ($8,340,312 as at December 31, 2011). In addition to ongoing working capital requirements, the Corporation must secure sufficient funding to meet its existing commitments, including future payments to acquire mineral properties and conduct minimum exploration and evaluation program and pay for general and administration costs. As at December 31, 2012, the Corporation had a negative working capital of $640,775 (positive working capital of $667,769 as at December 31, 2011), including cash and cash equivalents of $2,788,597 ($1,905,421 as at December 31, 2011). Management estimates that these funds will not be sufficient to meet the Corporation's obligations and budgeted expenditures through December 31, 2013. Any funding shortfall may be met in the future in a number of ways including but not limited to, the issuance of new equity, debt financing or other means. During the year ended December 31, 2012, the Corporation raised $9,945,819 from private placements and non-convertible debentures ($5,363,690 in 2011, from private placements) to finance exploration and evaluation programs and working capital.

December 31, 2012 (in Canadian dollars)

2 GOING CONCERN (continued)

Subsequent to year end, 330,000 warrants were exercised for $115,500 (Note 19). While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Corporation or that they will be available on terms which are acceptable to the Corporation. If management is unable to obtain new funding, the Corporation may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in there consolidated financial statements.

3. CHANGES IN FUNCTIONNAL CURRENCY AND IN ACCOUNTING POLICY

Functional currency

Until December 31, 2011, the functional currency of the Maya's wholly-owned Moroccan subsidiary, Compagnie Minière Maya-Maroc S.A.R.L. ("CMMM"), was the Canadian dollar. On January 1, 2012, given the increasing level of activity undertaken by the subsidiary with Moroccan suppliers and that amounts disbursed are now mostly denominated in the local currency, CMMM changed prospectively its functional currency from the Canadian dollar to the Moroccan dirham.

Effective January 1, 2012, assets, liabilities and transactions of CMMM are therefore translated into Canadian dollars on consolidation, whereby assets and liabilities are translated into Canadian dollars using the reporting date closing exchange rate. Income and expenses are translated into the Canadian dollars at the average exchange rate over the reporting period. Exchange differences are presented in other comprehensive loss and recognised in the accumulated other comprehensive loss.

Modification of share purchase warrants

The Corporation, in light of the discussions held at the July 19, 2012 public meeting of the IFRS Discussion Group of the Canadian Accounting Standards Board (the "IDG"), reviewed its accounting policy with respect to the accounting for the modification of share purchase warrants. The IDG's purpose is to assist the Canadian Accounting Standards Board regarding issues arising on the application of IFRS in Canada. Although the IDG's deliberations do not purport to be conclusions about acceptable or unacceptable application of IFRS, the Corporation decided to change its accounting policy in accordance with its deliberations.

The Corporation's previous accounting policy was to account for the increase in value arising from modifications of share purchase warrants as an expense in the consolidated statement of comprehensive loss. However, following the deliberations of the IDG, the Corporation elected to change its accounting policy to recognize the increase in value arising from such modifications as a capital transaction directly to equity, net of any related income tax. The Corporation applied this change in accounting policy retrospectively.

The financial statements of the year ended December 31, 2011 have been restated to give effect to the new accounting policy. The effects of the restatement are as follows:

	As previously reported	Adjustment	Balance adjusted
Net and comprehensive loss for the year ended December 31, 2011	$2,940,681	($100,000)	$2,840,681
Deficit as at December 31, 2011	$8,340,312	-	$8,340,312

December 31, 2012 (in Canadian dollars)

3. CHANGE IN ACCOUNTING ESTIMATE (continued)

The impact of this change on the information presented for the interim periods ended June 30, 2012 and September 30, 2012 is as follows (unaudited):

(unaudited)	As previously reported	Adjustment	Balance adjusted
Net loss for the six-month period ended June 30, 2012	$1,886,744	($721,257)	$1,165,487
Net loss for the three-month period ended June 30, 2012	$1,212,617	($721,257)	$491,360
Comprehensive loss for the six-month period ended June 30, 2012	$2,183,619	($721,257)	$1,462,362
Comprehensive loss for the three-month period ended June 30, 2012	$1,295,508	($721,257)	$574,251
Deficit as at June 30, 2012	$10,453,947	-	$10,453,947
Net loss for the nine-month period ended September 30, 2012	$2,347,518	($721,257)	$1,626,261
Comprehensive loss for the nine-month period ended September 30, 2012	$2,769,509	($721,257)	$2,048,252
Deficit as at September 30, 2012	$11,105,905	-	$11,105,905

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Corporation prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (“IFRS”) as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”).

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the calculation of certain financial asset, including derivative instrument which are measure at fair value. The Corporation has elected to present the statement of comprehensive loss in a single statement.

Basis of consolidation

These consolidated financial statements include the accounts of Maya and its subsidiaries. All intercompany transactions, balances, income and expenses are eliminated upon consolidation. Maya and all of its subsidiaries have a reporting date of December 31. The following entities have been consolidated within these consolidated financial statements:

Entities	**Registered**	**% of ownership and voting right**	**Principal activity**	**Functional Currency**
Maya Gold & Silver inc.	Canada	n/a	Holding	Canadian dollar
Compagnie Minière Maya-Maroc S.A.R.L. (" CMMM ")	Morocco	100%	Exploration	Moroccan dirham (Note 3)
Metales de la Sierra, S. de R.L. de C.V. ("Metales")	Mexico	99%	Exploration	Canadian dollar

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of Maya. The functional currency is the currency of the primary economic environment in which the Corporation operates.

Maya and its subsidiary have the Canadian dollar as their functional currency.

CMMM has the Moroccan dirham as functional currency. Assets, liabilities and transactions of CMMM are therefore translated into Canadian dollars on consolidation, whereby assets and liabilities are translated into Canadian dollars using the reporting date closing exchange rate. Income and expenses are translated into the Canadian dollars at the average exchange rate over the reporting period. Exchange differences are presented in other comprehensive loss and recognised in the accumulated other comprehensive loss.

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the financial position date, whereas non-monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the transaction date. Expenses denominated in a foreign currency are translated at the average rate in effect during the period with the exception of depreciation that is translated at the historical rate. Gains and losses on exchange arising from the translation of foreign operations are recorded in the consolidated statement of comprehensive loss.

Financial assets and liabilities

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial assets and liabilities** (continued)*

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired or issued:

Financial assets	**Classification**
Cash and cash equivalents	Loans and receivables
Marketable securities - shares	Available for sale investments
Marketable securities – subscription shares	Financial asset with variations in fair value charged to profit or loss
Advance to a related party	Loans and receivables
Restricted short-term investment	Loans and receivables
Financial liabilities	
Accounts payable and accrued liabilities	Financial liabilities at amortized cost
Balance of purchase price payable	Financial liabilities at amortized cost
Debentures	Financial liabilities at amortized cost

Income and expenses related to financial assets that are recognized in the consolidated statement of comprehensive loss are presented as finance income and finance expense.

i) Loans and receivables

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

ii) Available for sale investments

Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. Available for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months. Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statement of comprehensive loss as part of interest income.

iii) Financial asset with variations in fair value charged to profit or loss

Financial asset with variations in fair value charged to profit or loss are held as investment and quoted in an active market. Such assets are initially recognized at fair value with transactions costs charges to profit or loss. Subsequent to initial recognition, these assets are recorded at fair value and unrealized gain or loss related to changes in fair value is reported under change in fair value of marketable securities in the consolidated statement of comprehensive loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities *(continued)*

iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are de-recognized when the obligations are extinguished, discharged, cancelled or expired.

v) Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss. For the financial assets carried at amortized cost, the loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

For the financial assets available for sale, the impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income this amount represents the cumulative loss in accumulated the comprehensive loss that is reclassified to the statement of income. Impairment losses on available-for-sale equity financial asset may not be reversed.

Cash and cash equivalent

Cash and cash equivalents include cash on hand, bank balances and highly liquid short-term investments with maturities of three months or less.

Restricted short-term investment

Restricted short-term investment consists of a short-term deposit held as collateral against the Corporation's credit cards.

Exploration and evaluation assets

Exploration and evaluation assets are comprised of rights on mining properties or options to acquire undivided interests in mining rights, deferred exploration and evaluation expenses and mining properties. They are recorded at their acquisition cost or at their recoverable amount being the higher of their fair value less cost to sell or their value in use following a devaluation caused by an impairment of value. Expenditures incurred prior to securing the legal rights to explore an area are expensed immediately.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets (continued)

Exploration and evaluation expenditures for each property are capitalized and include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore like topographical, geological, geochemical and geophysical studies. They also reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition. Exploration and evaluation expenditures include the cost of:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body;
- determining the optimal methods of extraction and metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

When a mine project moves into the development phase, exploration and evaluation expenditures are capitalized to mine development costs in property and equipment and are tested for impairment.

Exploration and evaluation expenditures include overhead expenses directly attributable to the related activities.

Cash flows attributable to capitalized exploration and evaluation costs are classified as investing activities in the consolidated statements of cash flows under the heading increase in exploration and evaluation assets and cash flows attributable to expensed general exploration and evaluation expenditures are classified as operating activities in the consolidated statements of cash flows.

Proceeds on the sale of or interests in exploration properties are applied to reduce the related carrying costs; any excess is reflected as a gain in the consolidated statement of comprehensive loss. Losses on partial sales are recognized and reflected in the consolidated statement of comprehensive loss.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Where parts of an item of property, plant and equipment have a different useful life, they are accounted for as separate items of property, plant and equipment.

Depreciation is recognized on a straight-line basis using the cost of property, plant and equipment, less its estimated residual value, over its estimated useful life.

Repairs and maintenance costs related to exploration and evaluation assets are capitalized to exploration and evaluation assets. Other repairs and maintenance costs are charged to the statement of comprehensive loss during the period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Each asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, on an annual basis. The Corporation has applied the following estimated useful lives:

	Method	Rate
Office furniture	Straight-line	20%
Exploration and evaluation equipment	Straight-line	20%
Vehicles	Straight-line	30%
Computer equipment	Straight-line	30%

The production equipment has not been amortized since the mine is not yet in production.

Depreciation expense is capitalized in exploration and evaluation assets if the assets are attributable to exploration and evaluation activities.

Impairment of non-financial assets

At the end of each reporting period and when impairment indicators are identified, the Corporation reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs must be determined. In testing an individual asset or cash generating unit for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the cash-generating unit. The recoverable amount is the higher of an asset or a cash generating unit's fair value less cost to sell or its value in use. Value in use takes into account estimated future cash flows associated with the asset or cash generating unit, such value being discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or cash generating unit. In the case of exploration and evaluation assets, impairment reviews are carried out on a property-by-property basis, with each property representing a potential cash-generating unit, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A previous impairment is reversed if the asset's recoverable amount exceeds its carrying amount.

Provisions

A provision is recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Timing or amount of the outflow may still be uncertain. If the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Income tax on income for the periods presented comprises current and deferred tax. Income tax is recognized in income except to the extent that it relates to items recognized in other comprehensive loss or in equity, in which case it is recognized in other comprehensive loss or in equity, respectively.

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

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that do not affect accounting or taxable income; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset only when the Corporation has a legally enforceable right and intention to set-off current tax assets and liabilities from the same taxation authority.

Share capital and warrants

Share capital and share purchase warrants are classified as equity. The Corporation allocates the proceeds from an equity financing between common shares and share purchase warrants based on the relative fair value of each instrument using the Black-Scholes pricing model.

Share-based payment transactions

Equity-settled share-based payments are made in exchange for services received or for the acquisition of properties. The value of the equity instruments granted is determined upon the fair value of the services received or the properties acquired unless impracticable. In such case, the fair value of the services rendered or the properties acquired is determined indirectly by reference to the fair value of the equity instruments granted. The fair value of share-based payments to directors, officers, employees and consultants is recognized as an expense over the vesting period with a corresponding increase to the share purchase option component of the equity. The fair value is measured at the grant date and recognized over the period during which the options vest or the service period for consultant that do not qualify as an employee of the Corporation. The fair value of the options granted is measured using the Black-Scholes option pricing model and takes into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Share issue expenses

Share issue expenses are accounted for as decrease of equity when incurred by increasing the deficit.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

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

For the purpose of calculating diluted loss per share, the Corporation assumes the exercise of its dilutive share purchase warrants, share purchase options and agent options.

Segmented information

The Corporation currently has only one operating segment which is mineral exploration and evaluation.

Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires the Corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Corporation also makes estimates and assumptions concerning the future. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

The more significant areas requiring the use of management estimates and assumptions relate to the impairment of non-financial assets, income taxes and going concern.

Impairment of available-for-sale investment

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The judgements that management has applied in the application of accounting policies, and the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of non-financial assets

Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, interruptions in exploration and evaluation activities, the period for which the entity has the right to explore expiration and a significant drop in current or future ore prices.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates *(continued)*

The Corporation's recoverable amount measurement with respect to the carrying amount of non-financial assets is based on numerous assumptions and may differ significantly from actual fair values. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Corporation's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The recoverable amount estimates may differ from actual recoverable amounts and these differences may be significant and could have a material impact on the Corporation's financial position and result of operations. Assets are reviewed for an indication of impairment at each statement of financial position date or when a triggering event is identified. This determination requires significant judgment. Based on an impairment analysis performed in 2012, the Mexican property is impaired by $175,893 given that no expenses are budgeted. The estimation of the impairment charge requires judgment from the management.

A number of judgments were made in the determination of the Corporation's cash generating units. If a different conclusion had been reached for any one of those assumptions, it could have resulted in the identification of cash generating units different from those actually identified by the Corporation.

The Corporation follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgment, the Corporation's management evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the volatility of the investment and the financial health and business outlook for the investee, including factors such as the current expected status of the investee's exploration projects and changes in financing cash flows.

Income taxes

The Corporation is subject to income taxes in some jurisdictions. Significant judgement is required in determining the total provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The assessment of availability of future taxable profits involves judgment. A deferred tax asset is recognized to the extent that is probable that taxable profits will be available which deductible temporary differences and the carry-forward of unused tax credits and unused losses can be utilized.

Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards issued but not yet applied

The following new standards, and amendment to standards and interpretations, were not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its statements or whether to early adopt any of the new requirements. The following is a brief summary of the new standards:

IAS 1 – Presentation of Financial Statements

IAS 1 was amended to change the disclosure of items presented in other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. This amendment is required to be applied for years beginning on or after July 1, 2012.

IFRS 9 – Financial instruments

IFRS 9 was issued in November 2009. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39, Financial Instruments – Recognition and Measurement, 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. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 required to be applied for accounting periods beginning on or after January 1, 2015.

IFRS 10 – Consolidated financial statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. IFRS 10 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards issued but not yet applied (continued)

IFRS 11 – Joint arrangements

IFRS 11 replaces IAS 31, Interests in Joint Ventures. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will follow accounting much like that for jointly controlled asset and jointly controlled operations under IAS 31. IFRS 11 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

IFRS 12 – Disclosure of interests in other entities

IFRS 12 sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28, Investments in Associates. IFRS 12 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

IFRS 13 – Fair value measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

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

IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining in *situations* where the following benefits accrue to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. IFRIC 20 is applicable for annual period beginning on or after January 1, 2013.

5. RESTRICTED SHORT-TERM INVESTMENT

As at December 31, 2012, an amount of $20,240 ($20,040 at December 31, 2011) was held as collateral of the Corporation’s credit cards. This collateral was invested in a guaranteed investment certificate bearing interest at 1%, maturing in September 2013 and redeemable at anytime.

December 31, 2012 (in Canadian dollars)

6 MARKETABLE SECURITIES

Pursuant to the July 12, 2012 share exchange agreement with London stock exchange-listed Praetorian Resources Limited ("Praetorian"), as fully described in note 10, the Corporation received 2,185,315 ordinary shares of Praetorian at a price of £0.50 ($0.81) per ordinary share, and 1,092,657 subscription shares of Praetorian. These ordinary shares were valued at $1,750,000 and the subscription shares at nil on the date of the share exchange agreement, being the same value as the shares issued to Praetorian. Each subscription share of Praetorian entitles the Corporation to purchase one additional ordinary share of Praetorian at a price of £0.70 ($1.13) per share, payable in full on subscription. The expiry date for the exercise of the subscription shares is the last business day in July 2015. The Praetorian ordinary shares received have been classified as available for sale investments and the subscription shares received have been classified as a financial asset with variations in fair value charged to profit or loss.

The fair value of the ordinary shares and subscription shares held as at December 31, 2012 were established using the closing market price at that date (£0.45 or $0.73 for ordinary share and £0.08 or $0.13 for subscription share). The changes in fair value of marketable securities held were as follows:

	$
Balance at December 31, 2011	-
Value of Praetorian units received in July 2012 (Note 10)	1,750,000
Change in fair value – ordinary shares	(159,069)
Change in fair value - subscription shares	141,416
Balance at December 31, 2012	**1,732,347**

December 31, 2012 (in Canadian dollars)

7 PROPERTY, PLANT AND EQUIPMENT

	Computers and other office equipment	Exploration and evaluation equipment	Production equipment	Vehicles	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2011	69,499	466,877	-	82,390	618.766
Additions	787	-	-	-	787
Balance at December 31, 2011	70,286	466,877	-	82,390	619,553
Additions	-	-	250,000	-	250,000
Foreign exchange (Note 3)	(2,839)	(4,132)	-	(7,804)	(14,775)
Balance at December 31, 2012	67,447	462,745	250,000	74,586	854,778
Accumulated depreciation					
Balance at January 1, 2011	24,953	84,509	-	25,272	134,734
Depreciation	12,758	76,474	-	17,135	106,367
Balance at December 31, 2011	37,711	160,983	-	42,407	241,101
Depreciation	8,442	61,321	-	10,289	80,052
Foreign exchange (Note 3)	(807)	(5,045)	-	(2,356)	(8,208)
Balance at December 31, 2012	45,346	217,259	-	50,340	312,945
Carrying amounts			-		
At December 31, 2011	32,575	305,894	-	39,983	378,452
At December 31, 2012	22,101	245,486	250,000	24,246	541,833

Depreciation expense of $4,054 (2011 - $5,552) is included in the consolidated statement of comprehensive loss and an amount of $75,998 (2011 - $100,815) was charged to deferred exploration and evaluation expenses.

December 31, 2012 (in Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Property and equipment are located as follows:

	Computers and other office equipment	Exploration and evaluation equipment	Production Equipment	Vehicles	December 31, 2012 Total
	$	$	$	$	$
Canada – corporate office	11,706	-	-	-	11,706
Morocco	10,395	245,486	250,000	24,246	530,127
	22,101	245,486	250,000	24,246	541,833

	Computers and other office equipment	Exploration and evaluation equipment	Production Equipment	Vehicles	December 31, 2011 Total
	$	$	$	$	$
Canada – corporate office	15,760	-	-	-	15,760
Morocco	16,815	305,894	-	39,983	362,692
	32,575	305,894	-	39,983	378,452

December 31, 2012 (in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

Changes in exploration and evaluation assets were as follows:

	December 31, 2012	December 31, 2011
	$	$
Rights on mining properties		
Opening balance	4,627,618	1,300,050
Additions	2,282,450	1,936,845
Additions – balance of purchase price payable	3,264,800	593,500
Additions – for shares	-	797,223
Impairment	(171,629)	-
Foreign exchange (Note 3)	(87,720)	-
Ending balance	9,915,519	4,627,618
Advances for property acquisition and exploration and evaluation work		
Opening balance	245,806	646,074
Advances during the year	4,075,000	2,210,000
Applied on acquisition of rights and mining properties	(593,500)	(1,893,259)
Applied as deferred exploration and evaluation expenses	(590,563)	(717,009)
Foreign exchange (Note 3)	19,613	-
Ending balance	3,156,356	245,806
Deferred exploration and evaluation expenses		
Opening balance	4,473,619	3,620,368
Additions		
Salaries and benefits	167,432	178,880
Drilling and sampling	11,066	43,837
Geology and consulting	289,400	300,973
Supplies and others	424,018	34,323
Administrative	37,275	194,423
Depreciation	75,998	100,815
Foreign exchange (Note 3)	(195,910)	-
Impairment	(4,264)	-
Ending balance	5,278,634	4,473,619
Balance, end of year	18,350,509	9,347,043

December 31, 2012 (in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)

Exploration and evaluation assets are as follows:

			December 31, 2012
	Mexico	Morocco	Total
	$	$	$
Rights on mining properties	-	9,915,519	9,915,519
Advances for property acquisition and exploration and evaluation work	-	3,156,356	3,156,356
Deferred exploration and evaluation expenses	-	5,278,634	5,278,634
	-	18,350,509	18,350,509

			December 31, 2011
	Mexico	Morocco	Total
	$	$	$
Rights on mining properties	171,629	4,455,989	4,627,618
Advances for property acquisition and exploration and evaluation work	-	245,806	245,806
Deferred exploration and evaluation expenses	4,264	4,469,355	4,473,619
	175,893	9,171,150	9,347,043

a) Zgounder project

In January 2012, the Corporation and l'Office National des Hydrocarbures et des Mines ("ONHYM"), a Moroccan state institution, entered into an Assignment Agreement for the Zgounder Silver project. Under the terms of the Assignment Agreement, the Corporation acquired 85% of the Zgounder Silver project for total cash payments of $5,647,250 (48,000,000 dirham), including an amount of $2,382,450 (20,000,000 dirham) paid in February 2012, an amount of $1,646,400 (14,000,000 dirham) payable in January 2013 and a final amount of $1,646,400 (14,000,000 dirham) payable in July 2013. The transfer of the property will occur once a separate company has been established in Morocco for this purpose, to be 85% owned by the Corporation and 15% owned by ONHYM, and a letter of credit has been subscribed to by the Corporation to the benefit of OHNYM, in the amount of $329,280 (2,800,000 dirham), representing 10% of the balance of the purchase price of the project. The transfer did not occur at April 26, 2013.

December 31, 2012 (in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)

a) Zgounder project (continued)

Under the terms of the Assignment Agreement, the Corporation also agreed to make an additional cash payment (the "Additional Payment" to ONHYM, no later than the latter of 6 months following the completion of a feasibility study and the decision to bring the project into production, or 24 months following the transfer of the property to the Corporation. The Additional Payment is to total $1.5 million if the established mineral reserves are at least 10 million ounces of silver, $3.0 million if the established mineral reserves exceed 20 million ounces of silver and $4.0 million if the established mineral reserves exceed 30 million ounces of silver. The Corporation has also agreed to undertake a $5.0 million exploration program to be spent within 24 months of the transfer of the property and to spend an amount of $9.5 million in rehabilitation and development expenditures within 18 months of the approval of the Act of the transfer of the property. ONHYM will receive a 3% royalty on sales from the Zgounder project.

The acquisition of Zgounder property did not meet the definition of a business as the property did not have ore reserves and the processing infrastructure is non functional and incomplete. Consequently, the property has been recorded as an acquisition of assets.

The total purchase price of $5,647,250 was allocated to the assets acquired and the liabilities assumed based on the fair value of the total consideration at the closing date of the transaction. All property, plant and equipment acquired and provision of environmental remediation assumed were recorded at fair value and the residual amount as compared to the consideration paid was allocated to the mining property.

The purchase price was calculated as follows:

Consideration paid

	$
Cash	2,382,450
Balance of purchase price payable	3,264,800
	5,647,250

Net assets acquired

	$
Property, plant and equipment	250,000
Mining property	5,547,250
Provision for environmental remediation	(150,000)
	5,647,250

8. EXPLORATION AND EVALUATION ASSETS (continued)

b) Azegour property

On March 2, 2011, the Corporation entered into a property purchase agreement with Ouiselat Mines (a private Moroccan company) to acquire a 100% interest in mining permit No 183208 (Azegour property) for a total cash consideration of 20.0 million dirhams (approximately $2.4 million) and the issuance of 500,000 common shares of the Corporation in favour of Ouiselsat Mines.

In accordance with the agreement, the Corporation paid in 2011, in two tranches, a total amount of 15.0 million dirhams (approximately $1.8 million) and issued all 500,000 common shares of the Corporation, valued at $175,000. The third and final cash payment of 5 million dirhams ($593,500) was due in March 2012, 12 months following the signing of the purchase agreement. This payment was made in March 2012.

The Corporation will pay a 2.5% royalty on revenue to Ouiselat Mines on any production derived from the property.

The transfer of property titles to the Corporation as well as the regulatory approval of the transaction by the Ministère de l'Énergie, des Mines, de l'Eau et de l'Environnement du Maroc ("Moroccan Mining Authorities") were confirmed in May 2011.

c) Mining permit No 233263

On March 2, 2011 the Corporation entered into a property purchase agreement with a private individual to acquire a 100% interest in mining permit no 233263 by making cash payments of 400,000 dirhams (approximately $50,000), including 200,000 dirhams ($24,160) at the signing of the agreement and the remaining 200,000 dirhams (approximately $24,680) upon approval from the Ministère des Mines (received on November 11, 2011).

A further payment of 400,000 dirhams (approximately $50,000) is to be paid to the seller, if future exploration work confirms a minimum of 10,000,000 ounces of silver on the property.

d) Amizmiz Property

In October 2010, the Corporation entered into a property purchase agreement with Société d'Exploration Géologique des Métaux ("SEGM"), a Morrocan private company holding the right on the Amizmiz mining permits, replacing and cancelling the previous option agreement of March 2009, whereby it acquired from SEGM, 100% of the rights on the Amizmiz property in consideration for 1,555,555 common shares of the Corporation. In accordance with the 2009 option agreement and the 2010 acquistion agreement, the Corporation made cash payments of $250,000 in 2009 and issued 500,000 common shares in 2009, 666,667 common shares in March 2010 and 1,555,555 common shares in June 2011, respectively valued at $190,000, $180,000 and $622,223 at the date of the transactions. SEGM retains a 2.5% net smelter royalty (NSR) on the acquired permits. The 2010 acquisition agreement was approved by the Moroccan Mining Authorities in June 2011.

In 2012, one of the permits held at the Amizmiz property was not renewal. Since no value was allocated to this permit at the acquisition date, no impairment was necessary.

8. EXPLORATION AND EVALUATION ASSETS (continued)

e) La Campaña property

The purchase of a 100% interest in the La Campaña concession located on the Baluarte Property, in Mexico, was completed in January 2011 for a final payment of US$43,334 ($40,000). The total consideration was $US140,000 (CA$146,598). A 2.0% NSR on any eventual mineral production was retained by the vendor. Based on an impairment analysis performed in 2012, this property is impaired by $175,893 given that no expenses are budgeted.

9. DEBENTURES

On February 13, 2012, April 5, 2012 and June 14, 2012 the Corporation completed financings of non-convertible debentures. The principal amount for each of the financing amounted to $200,000, $280,000 and $580,000 respectively.

On November 17, 2011, the Corporation completed a financing of non-convertible debentures in the principal amount of $700,000.

All debentures will mature on December 31, 2013. The Corporation agreed to reimburse the principal amount of the debentures by the delivery of silver ingots produced by the Corporation on the basis of one silver ingot of 10 kg for each tranche of $10,000 in capital. Should the Corporation not be in a position to deliver such silver ingots on the maturity date, the Corporation agreed to reimburse the principal amount of the debentures in cash, with interest at the rate of 5% per annum.

As part of the April 5, 2012 financing, debentures of $60,000 were issued as settlement of a bonus payment due to a director and officer of the Corporation (Note 18).

December 31, 2012 (in Canadian dollars)

10. SHARE CAPITAL AND WARRANTS

Authorized

Unlimited number of common shares without par value.

Issuance of securities

2012

The following table details private placements completed during the year ended December 31, 2012:

	Shares issued	Proceeds	Warrant exercise price (6) (7)	Expiry date of warrants
February 13, 2012 (1)	3,000,000	$700,000	$0.35	December 31, 2013
April 5, 2012 (1) (5)	4,200,000	$980,000	$0.35	December 31, 2013
June 14, 2012(1)	8,700,000	$2,030,000	$0.35	December 31, 2013
July 12, 2012 (2)	7,000,000	$1,750,000	-	-
September 13, 2012 (3)	5,000,000	$1,250,000	$0.35	September 12, 2014
November 22, 2012 (4)	18,808,000	$4,702,000	$0.35	November 26, 2014
Total	46,708,000	$11,412,000		

(1) A total of 53 units were issued On February 13, April 5 and June 14, 2012 at a price of $70,000 per unit, for total gross proceeds of $3,710,000. Each unit consists of 300,000 common shares and 150,000 common share purchase warrants. Each warrant entitles the holder thereof to purchase one common share of the Corporation at an exercise price of $0.35, exercisable at any time on or before December 31, 2013. The securities issued under the private placement are subject to a four-month hold period.

(2) On July 12, 2012, the Corporation entered into a share exchange agreement (the “Exchange Agreement”) with Praetorian. Pursuant to the Exchange Agreement, the Corporation issued to Praetorian 7,000,000 common shares of its share capital at a deemed issue price of $0.25 per common share (for a total deemed value of $1,750,000) and will issue to Praetorian 3,500,000 share purchase warrants at $0.35, exercisable at any time on or before October 31, 2014 (subject to the receipt of shareholder at the next annual general and extraordinary meeting and regulatory approvals), enabling Praetorian to purchase one additional common share of the Corporation for each share purchase warrant held. In exchange, the Corporation received 2,185,315 ordinary shares and 1,092,657 subscription shares of Praetorian, as fully described in Note 6. The common shares issued by the Corporation under the Exchange Agreement are subject to a four-month hold period, expired in November 2012.

(3) On September 13, 2012, the Corporation issued 5,000,000 units in connection with a subscription agreement with Praetorian. The units were issued at a price of $0.25 per unit for a gross proceed of $1,250,000. Each unit consists of one common share and one half common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share of the Corporation at an exercise price of $0.35, exercisable at any time on or before September 12, 2014. The securities issued under the private placement are subject to a four-month hold period.

(4) On November 22, 2012, the Corporation issued 18,808,000 units for total gross proceeds of $4,702,000. Each unit consists of one common shares and one half common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share of the Corporation at an exercise price of $0.35, exercisable at any time on or before November 26, 2014. The securities issued under the private placement are subject to a four-month hold period.

(5) As part of the April 5, 2012 private placement, three units for a total amount of $210,000 were issued as settlement of a bonus payment due to a director and officer of the Corporation.

(6) All warrants are subject to an accelerated expiry if, following the hold period of four months and one day from the closing date of the private placement, the weighted average trading price (as such term is defined in the TSXV Exchange Policies) of the common shares of the Corporation is equal to or greater than $0.50 for any 20 consecutive trading days (after taking into account the change in strike price from $1.00 to $0.50 related to the February 13 and April 5, 2012 private placements (see detail of change in *Share purchase warrants* section)). In that event, the holder will be given notice that the warrants will expire within 30 days following the date of such notice.

(7) The exercise price of the warrants originally issued between March 4, 2011 and April 5, 2012 was amended from $0.70 to $0.35 per common share on June 14, 2012 (see detail of change in *Share purchase warrants* section).

December 31, 2012 (in Canadian dollars)

10. SHARE CAPITAL AND WARRANTS (continued)

The fair value of the warrants issued was measured based on the Black-Scholes option pricing model. The following tables detail the fair value for each private placement of 2012 and the weighted average assumptions used:

Weighted average assumptions:	
Volatility	87%
Risk-free interest rate	1.1%
Expected dividend yield	0%
Expected life	1.9 year

	Number of warrants issued	Warrants' value	Total fair value
February 13, 2012	1,500,000	$0.05	$71,265
April 5, 2012	2,100,000	$0.04	$92,050
June 14, 2012	4,350,000	$0.06	$277,140
September 13, 2012	2,500,000	$0.07	$164,309
November 22, 2012	9,404,000	$0.07	$626,420
Total	19,854,000		$1,231,184

In connection with the private placements completed in 2012, the Corporation paid finders' fees totaling $427,100 issued 385,000 shares estimated at $80,850 and issued broker warrants with an exercise price of $0.35 per warrant, 60,000 exercisable at any time on or before December 31, 2013 and 70,000 until November 26, 2014. The fair value of the shares issued is estimated based on the fair value of shares at the transaction date. The fair value of the broker warrants, estimated at $33,684 was measured based on the Black-Scholes option pricing model using an expected volatility of 90%, a risk-free interest rate of 1.1%, an expected dividend yield of 0% and an expected life of 1.9 years. Other share issue costs totalled $79,081.

2011

i) On November 17, 2011, the Corporation completed a private placement of 36 units at a price of $70,000 per unit, for total gross proceeds of $2,520,000. Each Unit consists of 300,000 common shares and 150,000 common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share at an exercise price of $0.70 per share, exercisable at any time on or before December 31, 2013. The securities issued under the private placement are subject to a four-month hold period, expiring in March 2012.

   The warrants are subject to an accelerated expiry if, following the hold period of four months and one day, the weighted average trading price (as such term is defined in the TSXV Exchange Policies) of the shares is equal to or greater than $1.00 for any 20 consecutive trading days. In that event, the holder will be given notice that the warrants will expire within 30 days following the date of such notice. The warrants may be exercised by the holder during the 30-day period between the notice and the accelerated expiry date of the warrants.

10. SHARE CAPITAL AND WARRANTS (continued)

Issuance of securities (continued)

An amount of $250,892 was allocated to the share purchase warrants. The fair value of the warrants was measured based on the Black-Scholes option pricing model using an expected volatility of 100%, a risk-free interest rate of 0.90%, an expected dividend yield of 0% and an expected life of two years.

In connection with the private placement, financing costs consisting in cash payments totaled $146,763, including finders' fees of $115,830 and legal fees of $17,121 paid to a related party (Note 18). The Corporation also issued 210,000 broker warrants, at an exercise price of $0.35 per common share, exercisable at any time on or before December 31, 2013. The fair value of the broker warrants was estimated at $33,167 based on the Black-Scholes options pricing model using an expected volatility of 100%, a risk-free interest rate of 0.90%, an expected dividend yield of 0% and an expected life of two years.

ii) Following the acquisition of the Azegour property (Note 6 (a)), the Corporation issued to the vendor on September 6, 2011 a total of 500,000 common shares. The fair value of the common shares issued was determined at $0.35 per share based on the day of the issuance.

iii) In June 2011, in accordance with the property purchase agreement entered into with SEGM in 2010, the Corporation issued 1,555,555 common shares as a final consideration for the acquisition of a 100% interest in the Amizmiz Property. The fair value of the common shares issued was determined at $0.40 per share based on the closing stock price on the day of the issuance.

iv) In March 2011, the Corporation completed a private placement of 6,319,312 units at $0.45 per unit for a total cash consideration of $2,843,690 and 666,667 units for an amount of $300,000 in lieu of a bonus payment to a director and officer of the Corporation (Note 16). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to subscribe to one common share of the Corporation at a price of $0.70 until March 2013.

The warrants are subject to an acceleration clause such that, in the event that the closing price of the common shares for any 20 consecutive day trading period is equal to or greater than $1.00, the Corporation shall have the right to force conversion of the warrants, failing which the warrants will expire.

An amount of $791,412 was allocated to the share purchase warrants. The fair value of the warrants was measured based on the Black-Scholes option pricing model using an expected volatility of 100%, a risk-free interest rate of 1.64%, and expected dividend yield of 0% and an expected life of two years.

In connection with the private placement, financing costs consisting of cash payments totaled $190,000, including finders' fees of $179,478. The Corporation also issued 350,698 agent options. Each agent option was exercisable within 3 months of the closing of the private placement to subscribe for one unit at a price of $0.45. Each unit was comprised of one common share and one common share purchase warrant, with each warrant having the same terms as those issued as part of the units of the private placement. All 350,698 agent options expired unexercised in June 2011. The fair value of the agent options was measured at $31,311 based on a binomial pricing model using an expected volatility of 100%, a risk-free interest rate of 0.98%, an expected dividend yield of 0% and an expected life of 0.25 years.

December 31, 2012 (in Canadian dollars)

10. SHARE CAPITAL AND WARRANTS (continued)

Issuance of securities (continued)

v) On January 19, 2011, 22,125 common shares were issued for a cash consideration of $8,850, following the exercise of 22,125 agent options. The exercise price at the date of exercise was $0.50.

On July 19, 2011, 50,000 common shares were issued for a cash consideration of $20,000, following the exercise of 50,000 warrants. The stock price at the date of exercise was $0.50.

Share purchase warrants

	Year ended December 31, 2012		Year ended December 31, 2011	
	Number	Weighted average exercise price ($)	Number	Weighted average exercise price ($)
Balance, beginning of year	30,501,610	0.53	17,933,507	0.42
Private placements	19,404,000	0.35	11,719,312	0.70
Bonus payment	450,000	0.35	666,666	0.70
Finders' fees	130,000	0.35	210,000	0.35
Exercise of agent options	-	-	22,125	0.40
Expired	(17,905,632)	(0.42)	(50,000)	(0.40)
Balance, end of year	32,579,978	0.35	30,501,610	0.53

Re-pricing and change in acceleration clause of warrants

On June 14, 2012, the Corporation applied to the TSXV to reduce the exercise price of all its outstanding common share purchase warrants with an exercise price of $0.70 per share. These warrants, which total 15,985,978, were originally issued between March 4, 2011 and April 5, 2012 as part of non-brokered private placements of the securities of the Corporation. The Corporation was seeking reduction of the exercise price of these warrants from $0.70 to $0.35, in line with the terms and conditions of the warrants issued on June 14, 2012. The Corporation adjust the weighted average trading price of the common shares (with the exception of those warrants issued in March 2011) that triggers the accelerated expiry provisions of these warrants from $1.00 to $0.50, again in line with the terms and conditions of the warrants issued on June 14, 2012. Pursuant to the policies of the TSXV, the accelerated expiry provisions of those warrants issued in March 2011, being 6,985,978 warrants, would rather be amended to provide that the exercise period of such warrants will be reduced to 30 days if, for any 10 consecutive trading days during the unexpired term of such warrants, the closing price of the Corporation's common shares on the TSXV exceeds $0.467. The 30 day period will begin 7 calendar days after such 10 consecutive trading day period.

December 31, 2012 (in Canadian dollars)

10. SHARE CAPITAL AND WARRANTS (continued)

Share purchase warrants (continued)

Consequently, the resulting adjustment to the fair value of warrants in the amount of $721,257 was charged to deficit during the exercise ended December 31, 2012. The new fair value of these warrants was measured based on the Black-Scholes option pricing model using a volatility of 100%, a risk-free interest rate of 1.1%, an expected dividend yield of 0% and an expected life of 1.5 years as at the date the changes were approved by the TSXV. The adjustment was calculated in comparison of the two fair values.

On December 23, 2011, the Corporation approved the extension of the term of the 4,000,800 share purchase warrants originally issued on July 7, 2010 and July 22, 2010 from January 7 and January 22, 2012 to April 3, 2012. Consequently, the adjustment to the fair value in the amount of $100,000 was charged to deficit (note 3).

At December 31, 2012, the outstanding number of warrants exercisable into common shares is as follows:

	Number of warrants Dec 31, 2011	Issued	Expired	Number of Warrants December 31, 2012	Price per share	Expiry date
Private placement – June 2009	2,386,779	-	(2,386,779)	-	-	-
Private placement – January 2010	4,079,625	-	(4,079,625)	-	-	-
Private placement – July 2010	4,000,800	-	(4,000,800)	-	-	-
Private placement – Sept 2010	2,000,000	-	(2,000,000)	-	-	-
Private placement – November 2010	5,438,428	-	(5,438,428)	-	-	-
Private placement – March 2011	6,985,978	-	-	6,985,978	0.35	March 2013
Private placement – November 2011	5,400,000	-	-	5,400,000	0.35	Dec 2013
Broker warrants – November 2011	210,000	-	-	210,000	0.35	Dec 2013
Private placement – February 2012	-	1,500,000	-	1,500,000	0.35	Dec 2013
Broker warrants – February 2012	-	60,000	-	60,000	0.35	Dec 2013
Private placement – April 2012	-	2,100,000	-	2,100,000	0.35	Dec 2013
Private placement – June 2012	-	4,350,000	-	4,350,000	0.35	Dec 2013
Private placement– September 2012	-	2,500,000	-	2,500,000	0.35	Sept 2014
Private placement – December 2012	-	9,404,000	-	9,404,000	0.35	Nov 2014
Broker warrants – November 2012	-	70,000		70,000	0.35	Nov 2014
	30,501,610	19,984,000	(17,905,632)	32,579,978	0.35	

December 31, 2012 (in Canadian dollars)

10. SHARE CAPITAL AND WARRANTS (continued)

Share purchase warrants (continued)

Agent options

	Year ended December 31, 2012		Year ended December 31, 2011	
	Number	Weighted average exercise price ($)	Number	Weighted average exercise price ($)
Balance, beginning of year	67,500	0.40	123,375	0.43
Issued	-	-	350,698	0.45
Exercised	-	-	(22,125)	(0.40)
Expired	(67,500)	(0.40)	(350,698)	(0.45)
Cancelled	-	-	(33,750)	(0.50)
Balance, end of year	-	-	67,500	0.40

Each agent option entitles the holder to subscribe for one unit of the Corporation, which each unit comprised of one common share and one common share purchase warrant.

Long-term incentive plan

At the annual shareholders meeting held on June 10, 2011 the shareholders approved the 2011 long term incentive plan of the Corporation ("LTIP") in favour of the Chief Executive Officer and the Chief Operating Officer. These officers are entitled to receive up to an aggregate of 4,000,000 common shares of the Corporation until December 2015 on the basis of certain goals and milestones. The goal is to significantly increase shareholder value by the end of December 2015 through the acquisition of material mining properties and the development up to commercial production of any of the Corporation's property. The adoption of the LTIP brings the total number of common shares reserved for future issuance under all equity compensation plans to 8,000,000. As at December 31, 2012, no common shares were granted under the plan.

11. SHARE PURCHASE OPTIONS

The Corporation has adopted an incentive stock option plan (the "Plan") for its directors, officers, employees and consultants which provides that the Board of Directors of the Corporation may, from time to time, in its discretion, and in accordance with the TSXV policies, grant to directors, officers, employees and consultants to the Corporation, non-transferable options to purchase common shares of the Corporation, provided that the number of shares reserved for issuance will not exceed 7,000,000 common shares and that the exercise price of options granted may not be less than the closing price on the day preceding the grant.

December 31, 2012 (in Canadian dollars)

11. SHARE PURCHASE OPTIONS (continued)

The following table sets out the activity in share purchase options:

	Year ended December 31, 2012		Year ended December 31, 2011	
	Number	$ (1)	Number	$ (1)
Balance, beginning of year	3,400,000	0.30	3,000,000	0.28
Granted	1,560,000	0.35	500,000	0.44
Expired	(50,000)	(0.40)	-	-
Forfeited	(150,000)	(0.42)	(100,000)	(0.25)
Balance, end of year	4,760,000	0.31	3,400,000	0.30

(1) Weighted average exercise price

On March 6, 2012, the Corporation granted to directors, officers, employee and consultants, 1,560,000 share purchase options with a five year term. The share purchase options are exercisable at $0.35 per share. A total of 390,000 of the share purchase options granted vested on the date of grant, 390,000 vested on September 6, 2012 and 780,000 will vest by March 6, 2013.

On August 24, 2011, the Corporation granted to a consultant, 150,000 share purchase options which have a five year term. The share purchase options are exercisable at $0.40 per share. A total of 37,500 of the share purchase options granted vested on November 30, 2011, 37,500 vested on February 29, 2012 and 75,000 vested on May 31, 2012.

On March 17, 2011, the Corporation granted to officers, 350,000 share purchase options which have a five year term. The share purchase options are exercisable at $0.45 per share. A total of 87,500 of the share purchase options granted vested on the date of grant, 87,500 vested on September 17, 2011 and 175,000 vested by March 17, 2012.

The weighted average fair value of $0.20 of the 1,560,000 share purchase stock options granted in 2012 (500,000 in 2011 with a weighted average fair value of $0.27) was estimated using the Black-Scholes option pricing model at the date of issuance using the following weighted average assumptions:

	Year ended December 31, 2012	Year ended December 31, 2011
Exercise price ($)	0.35	0.44
Grant date market price ($)	0.28	0.42
Expected stock option life (years)	5.00	5.00
Expected volatility (%)	100	100
Risk-free interest rate (%)	1.70	1.99
Dividend yield (%)	0	0

December 31, 2012 (in Canadian dollars)

11. SHARE PURCHASE OPTIONS (continued)

No special features inherent to the options granted were incorporated into the measurement of fair value. The share-based payments were accounted for as an expense in the consolidated statement of comprehensive loss. The Corporation currently estimates the expected volatility of its common shares based its historical information. In the beginning of the year, the volatility was based on comparable information derived from the trading history of guideline public companies which in a similar situation to the Corporation taking into consideration the expected life of the options.

The following table reflects the share purchase options issued and outstanding at December 31, 2012:

Issue date	Number of options	Exercise price	Remaining contractual life (years)	Number of options exercisable
	Number	$	Number	Number
April 2008	1,600,000	0.25	0.4	1,600,000
July 2009	50,000	0.40	1.6	50,000
September 2009	200,000	0.40	1.7	200,000
October 2009	50,000	0.48	1.8	50,000
February 2010	150,000	0.40	2.1	150,000
July 2010	900,000	0.25	2.5	900,000
March 2011	250,000	0.45	3.2	250,000
March 2012	1,560,000	0.35	4.2	780,000
	4,760,000	0.31	2.3	3,980,000
Weighted average exercise price ($)				0.30

December 31, 2012 (in Canadian dollars)

12. MANAGEMENT AND ADMINISTRATION EXPENSES

	Year ended December 31, 2012	Year ended December 31, 2011
	$	$
Salaries and benefits	226,089	110,124
Consulting fees	525,737	629,965
Bonuses (1)	262,500	740,000
Share-based payments	330,812	155,945
Office	148,617	111,110
Professional fees	119,635	128,990
Regional office – Mexico	6,522	5,394
Reporting issuer costs	34,520	51,026
Penalties and interests	55,823	-
Depreciation	4,054	5,552
	1,714,309	1,938,106

(1) For 2011 includes an amount of $210,000 paid in units of the Corporation and $60,000 in debentures in April 2012 (Note 10).

December 31, 2012 (in Canadian dollars)

13. INCOME TAXES

The reconciliation of the effective tax rate is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
	$	$
Loss before income tax	(2,634,459)	(2,954,681)
Tax using the Corporation's domestic tax rate of 26.9% (28.4% in 2011)	(708,669)	(839,129)
Stock-based remuneration	88,988	44,288
Effect of tax rate in foreign jurisdictions	(22,373)	(3,078)
Non-deductible expenses	5,476	67,000
Impact of change in exchange and income tax rate on deferred income tax variance	-	64,926
Unrecognized tax assets	417,124	656,405
Foreign exchange	10,275	-
Impact of change of functional currency	(120,527)	-
Other	(23,488)	(4,412)
Deferred income tax	(353,194)	(14,000)

The applicable statutory tax rates are 26.9% in 2012 and 28.4% in 2011. The Corporation's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Corporation operates. The decrease is mainly due to the reduction of the Federal income tax rate in 2012 from 16.5% to 15%.

Unrecognized deductible temporary differences for which no deferred tax assets have been recognized are as follows:

	December 31, 2012	December 31, 2011
	$	$
Non-capital loss carry-forwards	6,986,435	5,173,253
Plant and equipment	121,806	116,232
Share issue costs	799,693	519,502
Capital loss	187,069	-
Marketable securities	47,251	-
	8,142,254	5,808,987

December 31, 2012 (in Canadian dollars)

13. INCOME TAXES (continued)

Recognised deferred tax assets and liabilities are as follows:

	December 31, 2012	December 31, 2011
	$	$
Property and equipment	72,582	60,000
Non capital losses	30,652	25,000
Unrealized capital gain	(19,000)	-
Exploration and evaluation assets	(84,234)	(217,000)
	-	(132,000)

Non-capital losses expire as follows:

	Canada
	$
2027	1,000
2028	368,832
2029	846,067
2030	1,311,851
2031	1,908,529
2032	1,472,448
	5,908,727

14. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as equity and debentures. When managing capital, the Corporation's objectives are a) to ensure the Corporation continues as a going concern; b) to increase the value of the Corporation's assets; and c) to achieve optimal returns to shareholders. These objectives will be achieved by identifying the right exploration and evaluation projects, adding value to these projects and ultimately taking them to production or obtaining sufficient proceeds from their disposal. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and evaluation of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Corporation's management team to sustain the future development of the business. As at December 31, 2012, capital was $19,881,807 ($10,281,304 at December 31, 2011). Management reviews its capital management approach on an ongoing basis and believes that this approach is appropriate given the relative size of the Corporation. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2012. Variation of capital during the year is detailed in the consolidated statement of changes in equity.

15. FINANCIAL RISK MANAGEMENT

The Corporation is exposed to various financial risks resulting from both its operations and its investment activities. There were no changes to the financial objectives, policies and processes during the year ended December 31, 2012.

The Corporation's main financial risks exposure and its financial risks management policies are as follows:

Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instrument fails to meet its contractual obligations. The Corporation's financial assets exposed to credit risk are primarily composed of cash and cash equivalents, restricted short-term investment and advance to a related party. The Corporation's cash and cash equivalents and restricted short-term investment is mostly held with charted Canadian bank, with most of the Corporation's cash and cash equivalents held with a Canadian-based financial institution. Advance to a related party is continually monitored to ensure its collection. Therefore, credit risk is not considered significant.

December 31, 2012 (in Canadian dollars)

15. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's liquidity and operating results may be adversely affected if the Corporation's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Corporation. All of the Corporation's financial liabilities have contractual maturities of less than 3 months and are subject to normal trade conditions except for the debentures which mature on December 31, 2013 and the balance of purchase price payable which mature in January 2013 and July 2013. The Corporation generates cash flow primarily from its financing activities. As at December 31, 2012, the Corporation does not have sufficient funds to settle its liabilities and commitments for the next 12 months. The Corporation must achieve new financings to continue the exploration and evaluation projects, to cover general and administration expenses and to meet its commitments (Note 17). As at December 31, 2012, the Corporation's negative working capital totals $640,775 (positive working capital of $667,769 at December 31, 2011). Current liabilities of $5,484,160 ($1,314,845 at December 31, 2011) are due within the next 12 months. The Corporation regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (see Note 2 – *Going concern*).

Currency risk

In the normal course of operations, the Corporation is exposed to currency risk due to business transactions in foreign countries denominated in a currency other than the functional currency being the Canadian dollar for all the entities within the consolidated group except for CMMM for which the functional currency is the Moroccan dirham (Note 3). The Corporation has not entered into any derivative contracts to manage this risk. Transactions related to the Corporation's exploration and evaluation activities are mainly denominated in Moroccan dirham ("MAD") and Mexican pesos ("Pesos") and the marketable securities are denominated in pounds. Foreign currency denominated financial assets and liabilities which expose the Corporation to currency risk are as follows:

December 31, 2012

	Pounds	Dirham	Pesos	Total ($)
Cash and cash equivalents	-	-	4,156	4,156
Accounts payables and accrued liabilities	(17,344)	-	-	(17,344)
Balance of purchase price payable	-	(3,292,800)	-	(3,292,800)
	(17,344)	**(3,292,800)**	**4,156**	**(3,305,988)**

The impact on comprehensive loss of a 10% increase or decrease in foreign currencies on the Corporation's financial instruments based on balances at December 31, 2012 would be approximately $331,000.

15. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

The Corporation's current policy is to invest excess cash in guaranteed investment certificates or interest bearing accounts with Canadian chartered banks. The Corporation regularly monitors compliance to its cash management policy.

Interest rate fair value risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The restricted short-term investments bear interest at a variable rate and the Corporation is, therefore, not exposed to the risk of changes in fair value resulting from interest rate fluctuations. As at December 31, 2012 cash and cash equivalents included an amount of $5,676 ($5,730 at December 31, 2011) in a guaranteed investment certificate, redeemable at any time, without penalty, bearing interest at a variable rate. The Corporation's other financial assets and current liabilities do not comprise any interest rate fair value risk since they do not bear interest. The sensitivity of the Corporation to a variation of 1% in interest rates would not have a significant impact.

Fair value of financial instruments

The carrying value of cash and cash equivalents, advance to a related party, restricted short-term investment and accounts payable and accrued liabilities are considered to be a reasonable approximation of fair their value because of the short-term maturity and contractual terms of these instruments.

The marketable securities are accounted for at their fair value. A variation of +- 10% of the quoted market price as at December 31, 2012, would result in an estimated effect on the fair value of $173,235.

Since the balance of purchase price payable and debentures mature within one year, its principal amount approximates its fair value.

Fair value hierarchy

The following table classifies financial assets and liabilities that are recognized on the statement of financial position at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. As a December 31, 2012, Marketable securities in the amount of 1,732,347 was categorized as level 1 (December 31, 2011 – nil).

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). As at December 31, 2012, there were no financial assets and liabilities categorized as level 2 (December 31, 2011 – nil).

Level 3: Inputs for the asset or liability that are not based on observable market data. As at December 31, 2012, there were no financial assets and liabilities categorized as level 3 (December 31, 2011 – nil).

December 31, 2012 (in Canadian dollars)

16. SUPPLEMENTAL CASH FLOW INFORMATION

	December 31, 2012	December 31, 2011
	$	$
Changes in working capital items		
Sales taxes receivable	(38,779)	(17,732)
Advance to a shareholder	(201,684)	-
Prepaid expenses	(4,755)	24,721
Accounts payable and accrued liabilities	(19,795)	395,301
	(265,013)	402,290

Non-cash transactions

Balance of purchase price of the Zgounder project (Note 8)	3,264,800	-
Share exchange agreement with Praetorian (Notes 6 and 10)	1,750,000	-
Exploration and evaluation assets included in accounts payable and accruals	-	79,810
Balance of purchase price payable – addition to rights on mining property	-	593,500
Shares issued for the acquisition of right on mining properties	-	797,223
Units issued in lieu of bonus payment	-	300,000
Units issued in lieu of bonus payment included in accounts payable as at December 31, 2011	210,000	-
Debentures issued in lieu of a bonus payment included in accounts payable as at December 31, 2011	60,000	-
Share issue expenses – shares, broker warrants and agent options	114,534	64,478
Depreciation included in exploration and evaluation assets	75,998	100,815

December 31, 2012 (in Canadian dollars)

17. COMMITMENTS

Lease agreement

As at December 31, 2012, the Corporation had a commitment under the terms of a lease for office premises ending in May 2015 of $75,660.

The total commitments for the next three years are as follows:

	$
2013	30,264
2014	30,264
2015	15,132
	75,660

Royalties

As per terms of property purchase agreements, the Corporation is also committed to pay the following royalties:

- 2.5% net smelter royalty (“NSR”) on the Amizmiz property and an 8 km radius area of interest;
- 2.5% royalty on revenue from the Azegour property;
- 2.0% NSR on the La Campaña property.
- 3.0% royalty on revenue from the Zgounder property

Exploration expenses

Zgounder

The Corporation agreed to undertake a $5.0 million exploration program to be spent within 24 months of the transfer of the property and to spend an amount of $9.5 million in rehabilitation and development expenditures within 18 months of the approval of the Act of the transfer of the property.

18. RELATED PARTY TRANSACTIONS

In the normal course of operations, for the year ended December 31, 2012 and 2011:

- A firm, of which a director of the Corporation is a partner, charged professional fees amounting to $46,778 recorded as professional fees and $56,824 as share issue expenses. ($32,497 in 2011, of which $17,121 was recorded as share issue expenses and $15,376 as professional fees);

- A company controlled by a director, who is also an officer of the Corporation, charged fees of $5,024 recorded as exploration and evaluation assets ($12,000 in 2011 recorded as management and administrative expenses and $8,885 as consulting fees);

- A company controlled by an officer, who is also a director of the Corporation, charged consulting fees of $350,000 ($292,975 in 2011);

- A company controlled by an officer charged professional fees of $18,995 recorded as professional fees ($23,141 in 2011 recorded as consulting fees);

- Global Works, Assistance and Trading S.A.R.L. ("Glowat"), a Moroccan private company owned by a close relative to an officer who is also director of the Corporation, charged as part of a project management agreement, management and service fees of $48,842 which were capitalized to exploration and evaluation assets ($82,061 in 2011).

- An officer who is also a director of the Corporation received in April 2012, in lieu of a bonus payment, 3 units at a price of $70,000 per unit as describe in note 9a) and debentures for a principal amount of $60,000 as describe in note 8 for a total of $270,000. In 2011, 666,666 units at $0.45 per unit as a bonus payment for a total consideration of $300,000, as part of the private placement of units completed in March 2011

- An officer of the Corporation charged consulting fees of $35,571 ($2,100 in 2011).

As at December 31, 2012, the Corporation had advanced an amount of $201,684 to an officer who is also a director of the Corporation. This advance is non-interest bearing and repayable on demand.

During the year ended December 31, 2012, the Corporation advanced $4,075,000 to Glowat for the acquisition of mining rights and exploration and evaluation work and property plant and equipment ($2,210,000 in 2011). As at December 31, 2012, the remaining advances amounted to $3,156,356 ($245,806 as at December 31, 2011) which is included in exploration and evaluation assets.

As at December 31, 2012 the balance due to the related parties amounted to $70,894 ($19,505 in 2011). This amount is subject to the same conditions as those of non related parties.

December 31, 2012 (in Canadian dollars)

18. RELATED PARTY TRANSACTIONS (continued)

Remuneration of key management personnel of the Corporation

The remuneration awarded to key management personnel, including all directors and officers, is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
	$	$
Director fees	28,850	33,637
Salaries	200,000	-
Consulting fees	306,368	506,157
Bonuses	250,000	675,000
Stock-based payments	261,990	134,156
	1,047,208	1,348,950

19. EVENTS AFTER THE REPORTING DATE

Stock Option Plan

On January 18, 2013, the Board of Directors approved, subject to regulatory approval, an increase in the number of common shares reserved for issuance under the Corporation's fixed number stock option plan from 7,000,000 to 10,000,000.

On January 18, 2013, the Board of Directors approved the grant, subject to regulatory approval, of a total of 3,675,000 options to purchase common shares to officers, directors, employees and consultants at an exercise price of $0.35 with an exercise period of five years except for 200,000 options which the exercise period is one year.

Royalty

On January 18, 2013, the Board adopted a resolution approving the payment to Glowat, a related party, of a royalty equal to 5% of the gross revenues generated from the Zgounder silver mine, less mining and milling costs. The Corporation granted the Royalty to Glowat given the importance of the involvement of the President and Director, in the development of the assets and operations of the Corporation in Morocco, and mainly in connection with the acquisition and development of the Zgounder silver mine. To royalty is subject to be approved by the disinterested shareholders of the Corporation at the annual general and extraordinary meeting.

Zgounder property

In February 2013, the Corporation paid to the vendor the second tranche of $1.7 million (14,000,000 dirham) related to the acquisition of the Zgounder property.

Exercise of warrants

On March, 2013, 330,000 warrants at a unit price of $0.35 were exercised for total cash proceeds of $115,500.

19. EVENTS AFTER THE REPORTING DATE (continued)

LTIP

On March 2013, the Corporation issue 559,396 common shares to the CEO and COO as part of the LTIP.

Boumadine

In March 2013, the Corporation and l'ONHYM, entered into a Joint Venture for the Boumadine polymetallic deposit. Under the terms of the convention, the Corporation acquired 85% of the Boumadine project for total cash payments of $3,292,800 (28,000,000 dirham), including an initial amount of $705,600 (6,000,000 dirham), an amount of $705,600 (6,000,000 dirham) payable 12 months after the date of convention, $705,600 (6,000,000 dirham) payable 24 months after the date of convention and a final payment of $1,176,000 (10,000,000 dirham) payable 36 months after the convention date. The transfer of the property will occur once a separate company has been established in Morocco for this purpose, to be 85% owned by the Corporation and 15% owned by l'ONHYM, and a letter of credit has been subscribed to by the Corporation to the benefit of l'OHNYM, in the amount of $258,720 (2,200,000 dirham), representing 10% of the balance of the purchase price of the project. The new Company to be created will recognized a debt to l'ONHYM in regard to the past expenses incurred.

The Corporation has agreed under the Joint Venture Agreement to invest an overall budget of $16 million which includes cash payments, exploration and development expenditures within 60 months of the approval of the Joint Venture Agreement. ONHYM will receive a 3% royalty on sales from the Boumadine project.

Marketable securities

On April 2013, the Corporation sold 1,000,000 ordinary shares of Praetorian for a gross proceed of £306,865 ($479,429).