WATERFRONT CAPITAL CORPORATION

Financial Statements

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

Contact Information:

Waterfront Capital Corporation
2489 Bellevue Avenue
West Vancouver, BC
V7V 1E1
Phone: (604) 922-2030
Fax: (604) 922-2037
Contact Person: Mr. Clive Shallow

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Waterfront Capital Corporation

We have audited the accompanying financial statements of Waterfront Capital Corporation, which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Waterfront Capital Corporation as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

February 7, 2014

WATERFRONT CAPITAL CORPORATION
Statements of Financial Position
(Expressed in Canadian Dollars)
As at December 31,

	2013	2012
ASSETS		
Current		
Cash	$ 15,746	$ 28,625
Accounts receivable	65,056	14,948
Investments (Note 5)	9,044	33,140
Prepaid expenses	10,433	1,613
	100,279	78,326
Property and equipment (Note 6)	36,546	52,030
	$ 136,825	$ 130,356
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 40,821	$ 42,623
Shareholders' equity		
Share Capital	7,459,938	7,459,938
Reserves	256,590	241,771
Deficit	(7,620,524)	(7,613,976)
	96,004	87,733
	$ 136,825	$ 130,356

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 10)
Subsequent events (Note 15)

On behalf of the Board:

"Douglas L. Mason"	*"Sead Hamzagic"*
Director	Director

The accompanying notes are an integral part of these financial statements

WATERFRONT CAPITAL CORPORATION
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
Years Ended December 31,

	2013	2012
REVENUE		
Corporate and administrative services	$ 223,821	$ 289,132
Other income	-	43,884
	223,821	333,016
EXPENSES		
Consulting fees	78,000	43,167
Depreciation	15,484	22,072
Office and general	4,338	65,203
Professional fees	58,040	72,762
Regulatory and transfer agent fees	18,791	26,478
Rent	6,000	51,333
Share-based payments (Note 8)	14,819	6,484
Wages and benefits	10,700	6,000
	206,172	293,499
Income before other items	17,649	39,517
OTHER ITEMS		
Write-down of loan receivable (Note 4)	-	(250,000)
Write-down of accounts receivable	-	(65,759)
Loss on sale of investments	-	(18,477)
Unrealized loss on investments	(24,197)	(19,063)
Net loss and comprehensive loss for the year	$ (6,548)	$ (313,782)
Basic and diluted loss per common share	$ (0.00)	$ (0.03)
Weighted average shares outstanding	9,654,066	9,654,066

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

WATERFRONT CAPITAL CORPORATION
Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital Amount	Share-based payment reserves	Deficit	Total
Authorized Capital					
Unlimited number of common shares without par value					
Balance as at December 31, 2011	**9,654,066**	**$ 7,459,938**	**$ 235,287**	**$ (7,300,194)**	**$ 395,031**
Share-based payments	**-**	**-**	6,484	**-**	**6,484**
Net loss for the year	**-**	**-**	**-**	(313,782)	**(313,782)**
Balance as at December 31, 2012	**9,654,066**	**7,459,938**	**241,771**	**(7,613,976)**	**87,733**
Share-based payments	**-**	**-**	14,819	**-**	**14,819**
Net loss for the year	**-**	**-**	**-**	(6,548)	**(6,548)**
Balance as at December 31, 2013	**9,654,066**	**$ 7,459,938**	**$ 256,590**	**$ (7,620,524)**	**$ 96,004**

The accompanying notes are an integral part of these financial statements

WATERFRONT CAPITAL CORPORATION

Statements of Cash Flows
(Expressed in Canadian Dollars)
Years Ended December 31,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (6,548)	$ (313,782)
Items not affecting cash:		
Depreciation	15,484	22,072
Amortization of deferred revenue	-	(43,873)
Share-based payments	14,819	6,484
Loss on sale of investments	-	18,477
Unrealized (gain) loss on investments	24,096	19,063
Write down of loan receivable	-	250,000
Write down of account receivable	-	65,759
	47,851	24,200
Changes in non-cash working capital items:		
Increase in accounts receivable	(50,108)	(32,699)
Increase in prepaid expenses	(8,820)	(190)
(Decrease) Increase in accounts payable and accrued liabilities	(1,802)	1,141
Net cash used in operating activities	(12,879)	(7,548)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of investments	-	13,863
Net cash provided by investing activities	-	13,863
Increase (decrease) in cash for the year	(12,879)	6,315
Cash, beginning of year	28,625	22,310
Cash, end of year	$ 15,746	$ 28,625

Supplemental disclosures with respect to cash flows (Note 9)

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of operations

The Company was incorporated under the laws of Alberta and was continued into British Columbia during the year ended December 31, 2000. The Company's principal business activity is merchant banking and providing reporting and financial services and investment assistance to public and non-public companies.

Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Management believes the Company will be successful in continuing to collect on revenues and therefore believes capital resources will be sufficient to carry its operations through the next twelve months. The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. Management believes that the Company has sufficient working capital to maintain operations for the upcoming year as a result of funds raised subsequent to year end (Note 15). Management is actively engaged in the review and due diligence of its revenue and expenses and may seek to raise the necessary capital to meet new funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these financial statements are based on IFRS issued and outstanding as of December 31, 2013. The Board of Directors approved the financial statements for issue on February 7, 2014.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information is expressed in Canadian dollars unless otherwise stated and have been rounded to the nearest dollar.

2. BASIS OF PREPARATION (Continued)

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the depreciation of equipment, impairment of assets, valuation of share-based payments, and recognition of deferred tax amounts.

Critical accounting estimates:

a) Impairment of assets
At each reporting period, assets, including accounts receivable and investments, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates and future operating performance.

b) Share-based payments
The fair value of share options granted is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. These estimates will impact the amount of share-based payments recognized.

c) Income taxes
Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences and, accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time.

d) Depreciation for equipment
Depreciation expense is allocated based on assumed asset lives. Should the asset life or depreciation rates differ from the initial estimate, an adjustment would be made in the statements of loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The following are a list of significant accounting policies used by the Company.

(a) Cash

Cash includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(b) Financial instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of loss and comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity dates. They are initially recognized at fair value and subsequently carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statements of loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (Continued)

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statements of loss and comprehensive loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statements of loss and comprehensive loss.

Other financial liabilities: This category includes promissory notes, amounts due to related parties, and accounts payable and accrued liabilities, all of which are initially recognized at fair value, net of transaction costs, and are subsequently stated at amortized cost using the effective interest method. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property and equipment are depreciated at the following annual rates using the declining balance method:

Computer equipment	30%
Computer software	30%
Furniture and fixtures	20%

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statements of loss and comprehensive loss.

Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company compares the carrying value of property and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

(d) Impairment of non-current assets

At each financial position reporting date, the Company's non-current assets are reviewed to determine whether there is any indication that the carrying value of those assets are impaired and may not be recoverable. If any such indication exists, the recoverable amount of the asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statements of loss and comprehensive loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the statement of loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(f) Share-based payment transactions

The Company's stock option plan allows employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Share-based payments to non-employees are measured at the fair value of goods or services received or at the fair value of equity instruments issued, if it is determined the fair value of the goods or services cannot be readily measured, and are recorded at the date the goods or services are received.

The fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking 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. The fair value of the options is accrued and charged to operations with the offset credit to share-based payment reserve, over the vesting period. If and when the stock options are exercised, the applicable amounts from share-based payment reserve are transferred to share capital.

The Black-Scholes option valuation model used by the Company to determine fair values of options and similar financial instruments requires the input of highly subjective assumptions including future stock volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

(g) Revenue recognition

Security transactions are recorded on a settlement date basis. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the statements of loss and comprehensive loss and are calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. All transaction costs are expensed to the statements of operations as incurred.

Consulting, rent and administration fees are recognized when the services are rendered and collection is reasonably assured. Deposits received in advance of services rendered are recorded as deferred revenue.

Interest income is recorded on an accrual basis. Loan commitment fees are recorded over the term of the loans. Annual loan fees are recorded quarterly based on the terms of the loan agreement and adjusted to the amount agreed to by the parties. Reasonable assurance of collectability is also required for recognition as revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Loss per share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. The dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(i) Income taxes

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the statement of financial position 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 affect neither accounting or taxable profit; nor 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 statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it will not be recognized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

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

(j) Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) New accounting standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2013 and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

Effective for annual periods beginning on or after January 1, 2014

- IFRS 10, IFRS 12, IAS 27, *Exception from Consolidation for "Investment Entities"*

  IFRS 10 is amended to define an "investment entity" and introduce an exception from consolidation for investment entities. IFRS 12 and IAS 27 are amended to introduce disclosures than an investment entity needs to make.

- IAS 32, *Financial Instruments*: Presentation

  IAS 32 is amended to clarify requirements for offsetting of financial assets and financial liabilities.

Effective for annual periods beginning on or after January 1, 2015

- IFRS 9, *Financial Instruments* - Classification and Measurement

  IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

- IFRS 7, *Financial Instruments* - Disclosure

  Amended to require additional disclosures on transition from IAS 39 to IFRS 9.

4. LOAN RECEIVABLE

The loan receivable was due from a company with former common directors, denominated in United States dollars, payment terms calls for monthly instalments of US$9,892, including interest (25.3% effective rate of interest per annum), unsecured and due December 31, 2012. During the year ended December 31, 2012, the Company determined that the loan had a permanent impairment and that the Company may not be able to realize on the loan and as such wrote down the remaining $250,000.

(Expressed in Canadian Dollars)

5. INVESTMENTS

Investments are marketable securities comprised of common shares in publicly traded companies as follows:

	2013	2012
Black Panther Mining Corp. –27,333* common shares (December 31, 2012 – 27,333* common shares)	$ 1,094	$ 1,640
Columbia Yukon Explorations Inc. – 30,000** common shares (December 31,2012 – 30,000** common shares)	1,950	10,500
International Bethlehem Mining Corp. – 600,000 common shares (December 31,2012 – 600,000 common shares)	6,000	21,000
	$ 9,044	$ 33,140

* Adjusted to reflect a 3 for 1 share consolidation completed on June 13, 2013
**Adjusted to reflect a 10 for 1 share consolidation completed on December 17, 2013

All of the investee companies have certain common directors with the Company.

6. PROPERTY AND EQUIPMENT

	Computer equipment	Computer software	Furniture and fixtures	Total
Cost				
Balance, December 31, 2011	$ 54,178	$ 114,313	$ 45,127	$ 213,618
Additions	-	-	-	-
Balance, December 31, 2012	54,178	114,313	45,127	213,618
Additions	-	-	-	-
Balance December 31, 2013	$ 54,178	$ 114,313	$ 45,127	$ 213,618
Accumulated Depreciation				
Balance, December 31, 2011	$ 40,594	$ 55,414	$ 43,508	$ 139,516
Additions	4,076	17,668	328	22,072
Balance, December 31, 2012	44,670	73,082	43,836	161,588
Additions	2,852	12,368	264	15,484
Balance, December 31, 2013	$ 47,522	$ 85,450	$ 44,100	$ 177,072
Carrying amounts				
As at December 31, 2011	$ 13,584	$ 58,899	$ 1,619	$ 74,102
As at December 31, 2012	$ 9,508	$ 41,231	$ 1,291	$ 52,030
As at December 31, 2013	$ 6,656	$ 28,863	$ 1,027	$ 36,546

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS

(a) Included in accounts receivable at December 31, 2013 is $63,721 (2012 - $14,801) due from companies controlled by directors and/or companies with common directors;

(b) Included in prepaid expenses at December 31, 2013 is $10,000 (2012 - $nil) as a deposit paid to Waterfront Communications Inc., a company with certain common directors, to cover shared employee payroll and office costs.

(c) Included in accounts payable at December 31, 2013 is $525 (2012 - $628) due to companies controlled by directors and/or companies with common directors;

(d) During the year ended December 31, 2013, the Company paid or accrued the following amounts to directors, companies or limited partnerships controlled by directors and/or companies with common directors:

	2013	2012
Consulting fees	$ 63,000	$ 43,167
Professional fees	35,000	30,000
Rent	6,000	51,333
Share-based payments	13,320	6,484

Key management compensation to the CEO, President, CFO and Directors include the following:

	2013	2012
Consulting and professional fees	$ 98,000	$ 73,167
Share-based payments	$ 13,320	$ 6,484

(e) During the year ended December 31, 2013, the Company received or accrued the following amounts from companies controlled by directors and/or companies with common directors:

	2013	2012
Interest and other income	$ -	$ 43,873
Corporate and administrative services revenue	209,480	272,861

8. STOCK OPTIONS AND WARRANTS

Stock Options

The Company has a rolling stock option plan (as adopted and approved by shareholders on June 12, 2013), whereby it is allowed to issue options of up to 10% of the Company's issued and outstanding common shares at any given time. Under the plan, options can be granted for a maximum term of five years and vesting of stock options is at the discretion of the Board of Directors at the time options are granted.

(Expressed in Canadian Dollars)

8. STOCK OPTIONS AND WARRANTS (Continued)

On November 1, 2011, the Company granted 200,000 stock options to a director at an exercise price of $0.10 per share and for a term of five years. These options were subject to vesting over an 18 month period, with one-quarter of the options vesting on the date of grant and an additional one-quarter vesting at each subsequent 6 month interval. During the year ended December 31, 2013, the Company recorded share-based payments of $498 (2012 - $4,903) in relation to the vested portion.

On July 24, 2012, the Company granted 75,000 stock options to a director at an exercise price of $0.10 per share and for a term of five years. These options are subject to vesting over an 18 month period, with one-quarter of the options vesting on the date of grant and an additional one-quarter vesting at each subsequent 6 month interval. During the year ended December 31, 2013, the Company recorded share-based payments of $825 (2012 - $1,581) in relation to the vested portion.

On February 15, 2013, the Company granted 675,000 incentive stock options to certain directors, officers, employees and directors at an exercise price of $0.10 per share for a term of five years. These options are subject to vesting over an 18 month period, with one-quarter of the options vesting on the date of grant and an additional one-quarter vesting at each subsequent 6 month interval. During the year ended December 31, 2013, the Company recorded share-based payments of $13,496 (2012 - $nil) in relation to the vested portion.

As at December 31, 2013, the following incentive stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
200,000	$ 0.10	November 1, 2016
75,000	$ 0.10	July 24, 2017
675,000	$ 0.10	February 15, 2018
950,000		

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2011	1,600,000	$ 0.15
Expired	(1,300,000)	$ 0.15
Granted	75,000	$ 0.10
Outstanding, December 31, 2012	375,000	$ 0.10
Expired	(100,000)	$ 0.10
Granted	675,000	$ 0.10
Outstanding, December 31, 2013	950,000	$ 0.10
Exercisable, December 31, 2013	593,750	$ 0.10

The weighted average grant-date fair value of options granted during the year ended December 31, 2013 was $0.02 (2012 was $0.03) per share.

(Expressed in Canadian Dollars)

8. STOCK OPTIONS AND WARRANTS (Continued)

The fair value of stock options was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2013	2012
Expected life (years)	5	5
Interest rate	1.47%	1.16%
Volatility	133.18%	136.69%
Dividend yield	0.00%	0.00%

Stock-based compensation for the year ended December 31, 2013 was $14,819 (2012 - $6,484).

Warrants

There were no warrants outstanding as at December 31, 2013 and December 31, 2012.

9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

There were no non-cash financing or investing transactions during the years ended December 31, 2013 and 2012.

10. COMMITMENTS AND CONTINGENCIES

(a) The Company has entered into lease agreements for premises and equipment expiring through 2014. The minimum annual lease commitments under these leases are as follows:

2014	$	26,929

(b) The Company has entered into three 5-year term renewable agreements with companies controlled by three directors of the Company for the provision of consulting and/or legal services at a cost of $2,500 per month ($30,000 per annum) each. If any of such agreements are terminated without cause, or if there is a change in control of the Company, the Company is required to pay an amount equal to five times the annual fees payable there under.

(c) The Company has entered into three agreements with certain directors/officers for services rendered in such capacities. If such agreements are terminated without consent of the director/officer or the director/officer resigns within 120 days following a change in control, the Company must pay $100,000 to such director/officer and allow any unvested stock options to vest.

11. CAPITAL MANAGEMENT

The Company manages its common shares and stock options as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

(Expressed in Canadian Dollars)

11. CAPITAL MANAGEMENT (continued)

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regard to the expected timing of expenditures from continuing operations.

To fund future operating activities the Company may need to raise funds through future share issuances, issue new debt or dispose of assets.

There have been no changes to the Company's approach to capital management during the year ended December 31, 2013. The Company is not subject to externally imposed capital requirements.

The Company expects its current capital resources will be sufficient to carry its corporate and administrative services and operations through its current operating period. See subsequent events note 15, additional financing.

12. FINANCIAL INSTRUMENTS

Fair value

The Company classifies its cash and short-term investments as fair value through profit or loss; accounts receivable as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

The carrying values of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

The Company's measurement of fair value of financial instruments as at December 31, 2013 and 2012 in accordance with the fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
December 31, 2013				
Cash	$ 15,746	$ 15,746	$ -	$ -
Investments	$ 9,044	$ 9,044	$ -	$ -
December 31, 2012				
Cash	$ 28,625	$ 28,625	$ -	$ -
Investments	$ 33,140	$ 33,140	$ -	$ -

(Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS (Continued)

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash, short-term investments, and accounts receivable.

The Company's credit risk is primarily attributable to cash and short-term investments. Management believes that the credit risk concentration with respect to cash and short-term investments is remote as it maintains accounts with highly-rated financial institutions. Accounts receivable are due primarily from companies with common directors and/or officers.

Credit risk with respect to other receivables is considered to be moderate due to the balance being outstanding from related parties (see Note 7). Credit risk with respect to trade accounts receivable has been assessed as low from management, as the Company has strong working relationships with the parties involved.

The credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with a major financial institution with strong investment-grade ratings by a primary ratings agency.

The Company's concentration of credit risk and maximum exposure thereto is as follows:

		2013		2012
Bank accounts	$	15,746	$	28,625
Investments		9,044		33,140
Trade accounts receivable		65,056		14,948
	$	89,846	$	76,713

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2013, the Company had accounts payable and accrued liabilities of $40,821 (2012 - $42,623). Based on the current funds held as at December 31, 2013, the Company has sufficient working capital to cover its current liabilities.

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company:

	2013					
Due Date		Accounts Payable and Accrued Liabilities		Due to Related Parties		Total
0 – 90 days	$	40,296	$	525	$	40,821

12. FINANCIAL INSTRUMENTS (Continued)

2012			
Due Date	Accounts Payable and Accrued Liabilities	Due to Related Parties	Total
0 – 90 days	$ 41,995	$ 628	$ 42,623

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

Interest rate risk consists of two components:

(a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's cash consists of cash held in bank accounts. Due to the short-term nature of the Company's financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

Future cash flows from interest income on cash will be affected by interest rate fluctuations. Given the balance of cash, any fluctuations in the interest rate would lead to an immaterial change in the statements of loss and comprehensive loss.

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to other price risk with respect to its marketable securities and investments, as they are carried at fair values based on quoted market prices, and investments.

(Expressed in Canadian Dollars)

13. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes for the year ended December 31, 2013 and 2012 is as follows:

	2013	2012
Income (loss) for the year	$ (6,548)	$ (313,782)
Expected income tax (recovery)	(2,000)	(78,000)
Non-deductible expenditures	7,000	42,000
Impact on different tax rates and other	(98,000)	6,000
Change in unrecognized deductible temporary differences	93,000	30,000
	$ -	$ -

The deductible temporary differences and unused tax losses that are not recognized as deferred tax assets are as follows:

	Expiry Dates	2013	2012
Allowable capital losses	not applicable	$ 2,532,000	$ 2,657,000
Non-capital losses	2014 to 2033	747,000	435,000
Property and equipment	not applicable	209,000	194,000
Investments	not applicable	352,000	303,000

14. SEGMENTED INFORMATION

The Company currently operates its business in one operating segment in Canada.

15. SUBSEQUENT EVENTS

On January 20, 2014, the Company announced the completion of a non-brokered private placement (the "Private Placement") and a convertible debenture financing (the "Debenture Financing") in which the Company raised an aggregate of $625,000. In connection with the Private Placement, the Company raised $25,000 by the issuance of 250,000 units (the "Units") at $0.10 per Unit. Each Unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase an additional common share for a period of two years at an exercise price of $0.20. With regard to the Debenture Financing, the Company raised $600,000 through the issuance of one Debenture to Resource Income Partners Limited Partnership, part of the Sprott Group of Companies. The Debenture pays an interest rate of 12% per annum and is convertible into common shares at $0.25 per share. The Debenture is also convertible into preferred shares (at the same conversion rate of $0.25 per share) and such preferred shares will have a cumulative dividend of 12% per annum. The Company does not currently have such preferred shares within its share capital, however, the Company will seek any required shareholder and/or regulatory approvals to create and authorize a class of preferred shares to facilitate the Debenture Financing. All of the securities issued pursuant to the Private Placement and the Debenture Financing are subject to a hold period expiring on May 18, 2014.