

**ARROWSTAR RESOURCES LTD.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**MARCH 31, 2014**

(Unaudited – Expressed in Canadian Dollars)



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### **NOTICE TO READER**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim condensed financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The condensed consolidated interim financial statements of the Company for the first quarter ended March 31, 2014 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these unaudited condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim condensed financial statements by an entity's auditor.

**ARROWSTAR RESOURCES LTD.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited – Expressed in Canadian Dollars)

	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current</b>		
Cash (Note 3)	\$ 3,149	\$ 3,988
Marketable securities (Note 4)	700	400
Receivables (Note 5)	9,439	7,447
Exploration and evaluation advances	4,000	4,000
Prepaid expenses	<u>1,973</u>	<u>4,932</u>
	19,261	20,767
<b>Equipment (Note 6)</b>	-	-
<b>Exploration and evaluation assets (Note 7)</b>	<u>637,719</u>	<u>637,719</u>
	<u>\$ 656,980</u>	<u>\$ 658,486</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities (Note 9)	<u>\$ 511,360</u>	<u>\$ 457,659</u>
<b>Shareholders' equity</b>		
Share capital (Note 10)	18,580,746	18,580,746
Reserve (Note 10)	3,000,737	2,996,933
Deficit	<u>(21,435,863)</u>	<u>(21,376,852)</u>
	<u>145,620</u>	<u>200,827</u>
	<u>\$ 656,980</u>	<u>\$ 658,486</u>

**Nature of operations and going concern (Note 1)**

**Subsequent events (Note 17)**

**On behalf of the Board:**

"Phillip Thomas"

Director

"Blaine Bailey"

Director

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

**ARROWSTAR RESOURCES LTD.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

FOR THE THREE MONTH PERIODS ENDED MARCH 31

(Unaudited – Expressed in Canadian Dollars)

	2014	2013
<b>EXPENSES</b>		
Administration fees	\$ 6,400	\$ 18,000
Consulting fees	31,500	48,000
Depreciation	-	788
Foreign exchange loss	(150)	(231)
Insurance	2,959	3,027
Investor relations	280	17,662
Office	358	7,156
Professional fees	7,926	4,500
Property investigation	-	-
Rent	-	15,946
Regulatory fees	6,234	6,445
Share-based compensation (Note 10)	3,804	18,452
Travel	-	770
	<u>(59,311)</u>	<u>(140,515)</u>
Unrealized gain/(loss) on marketable securities (Note 4)	300	(2,000)
Write-off of exploration and evaluation assets (Note 7)	-	<u>(35,000)</u>
	<u>300</u>	<u>(37,000)</u>
<b>Loss and comprehensive loss for the year</b>	<b>\$ (59,011)</b>	<b>\$ (177,515)</b>
<b>Loss per common share</b>		
-Basic and diluted	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>		
-Basic and diluted	69,844,702	66,901,369

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

**ARROWSTAR RESOURCES LTD.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTH PERIODS ENDED MARCH 31**  
(Unaudited – Expressed in Canadian Dollars)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (59,011)	\$ (177,515)
Items not affecting cash:		
Depreciation	-	788
Share-based compensation	3,804	18,452
Unrealized loss on marketable securities	(300)	2,000
Write-off exploration and evaluation assets	-	35,000
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(1,992)	30,010
Increase in prepaid expenses	2,959	3,027
Increase (decrease) in accounts payable and accrued liabilities	53,701	(13,848)
Net cash provided by (used in) operating activities	(839)	(102,086)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Subscriptions received in advance	-	-
Net cash provided by financing activities	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation advances	-	11,721
Exploration and evaluation assets	-	(62,317)
Net cash used in investing activities	-	(50,596)
<b>Change in cash during the period</b>	(839)	(152,682)
<b>Cash, beginning of period</b>	3,988	297,332
<b>Cash, end of period</b>	\$ 3,149	\$ 144,650
<b>Cash paid during the year for:</b>		
Income taxes	\$ -	\$ -
Interest	-	-

**Supplemental disclosure with respect to cash flows** (Note 11)

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

**ARROWSTAR RESOURCES LTD.**  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE MONTH PERIODS ENDED MARCH 31  
(Unaudited – Expressed in Canadian Dollars)

	Common Shares		Reserves				Total
	Number of Shares	Amount	Share compensation	Warrants	Deficit		
Balances as at December 31, 2012	66,901,369	\$ 18,492,446	\$ 2,871,796	\$ 94,200	\$ (20,736,296)	\$ 722,146	
Vesting of stock options	-	-	18,452	-	-	18,452	
Loss and comprehensive loss	-	-	-	-	(177,515)	(177,515)	
<b>Balances as at March 31, 2013</b>	<b>66,901,369</b>	<b>\$ 18,492,446</b>	<b>\$ 2,890,248</b>	<b>\$ 94,200</b>	<b>\$ (20,913,811)</b>	<b>\$ 563,083</b>	
Balances as at December 31, 2013	69,844,702	\$ 18,580,746	\$ 2,902,733	\$ 94,200	\$ (21,376,852)	\$ 200,827	
Vesting of stock options	-	-	3,804	-	-	3,804	
Loss and comprehensive loss	-	-	-	-	(59,011)	(59,011)	
<b>Balances as at March 31, 2014</b>	<b>69,844,702</b>	<b>\$ 18,580,746</b>	<b>\$ 2,906,537</b>	<b>\$ 94,200</b>	<b>\$ (21,435,863)</b>	<b>\$ 145,620</b>	

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

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited – Expressed in Canadian Dollars)

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Arrowstar Resources Ltd. (the “Company”) was incorporated on October 14, 1987 under the laws of British Columbia. The Company’s head office address is Suite 880 – 800 West Pender Street, Vancouver, BC, V6C 2V6. The Company is listed on the TSX Venture exchange (“TSX-V”) under the symbol AWS. To date, the Company has not earned operating revenue.

The Company is in the process of acquiring its exploration and evaluation assets and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

As at March 31, 2014, the Company has a working capital deficit of \$492,099 (December 31, 2013 – \$436,892) and an accumulated deficit of \$21,435,863 (December 31, 2013 - \$21,376,852). The Company expects to incur further losses in the development of its business. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

These condensed consolidated interim financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and thus be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES****Statement of compliance**

These financial statements have been prepared and presented in Canadian dollars in accordance with IAS 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent 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 financial statements were authorized for issue by the Board of Directors on August 5, 2014.

**Basis of presentation**

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. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these financial statements are in accordance with IFRS and have not been audited.

The preparation of financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These financial statements do not include all of the information required for full annual financial statements. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The significant accounting policies for the quarter are consistent with those disclosed in the audited annual financial statements for the year ended December 31, 2013 except as specified below. The accompanying financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2013.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited – Expressed in Canadian Dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Basis of consolidation**

These consolidated financial statements of the Company include the balances of its subsidiary, Gulfside Alaska Inc. (USA), which is a wholly owned subsidiary incorporated in the state of Alaska, USA.

The Company consolidates its subsidiary on the basis that it controls the subsidiary through its ability to govern its financial and operating policies.

All intercompany transactions and balances are eliminated on consolidation.

**New standards and interpretations not yet adopted**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2015. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2018.
- IFRS 9: New standard that replaced IAS 39 for classification and measurement.
- IFRS 14: New standard to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. IFRS 14 is effective beginning on or after January 1, 2016.
- IFRS 15: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 is effective beginning on or after January 1, 2016.

**3. CASH**

The Company's cash consists of the following:

	March 31, 2014	December 31, 2013
Cash held with banks	\$ 2,121	\$ 2,968
Cash held in foreign currencies	1,028	1,020
Total	\$ 3,149	\$ 3,988

**4. MARKETABLE SECURITIES**

On November 8, 2011, the Company received 100,000 shares in Ocean Park Ventures Corp. as part of a property option agreement. The shares were valued at \$45,000 on receipt and have been re-valued at March 31, 2014 to their fair market value of \$700 (December 31, 2013 – \$400).



**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited – Expressed in Canadian Dollars)

**5. RECEIVABLES**

	March 31, 2014	December 31, 2013
GST receivable	\$ 9,439	\$ 7,447

The Company does not have any significant balances that are past due. All accounts receivable are current, and the Company does not have any allowance for doubtful accounts. Due to their short-term maturities, the fair value of accounts receivable approximates their carrying value.

**6. EQUIPMENT**

The equipment account is broken down as follows:

Office equipment	Cost	Depreciation	Net Book Value
As at December 31, 2012	15,630	(5,120)	10,510
Additions	-	(3,153)	(3,153)
Write-off	(15,630)	8,273	(7,357)
<b>As at December 31, 2013 and March 31, 2014</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**7. EXPLORATION AND EVALUATION ASSETS**

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its properties are in good standing.

The Company has deposits with vendors related to exploration projects totaling \$4,000 as at March 31, 2014 (December 31, 2013 - \$4,000).

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited – Expressed in Canadian Dollars)

**7. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

Exploration and exploration assets at March 31, 2014 and December 31, 2014 consisted of the following:

December 31, 2013	Port Snettisham AK, USA	Roberts Lake QC, Canada	Total
<b>Acquisition costs</b>			
Balance, December 31, 2012	\$ 155,844	\$ -	\$ 155,844
Additions:			
Cash	-	35,000	35,000
Other	-	-	-
Shares	45,000	-	45,000
Annual acquisition costs	45,000	35,000	80,000
Total acquisition costs	200,844	35,000	235,844
<b>Exploration costs</b>			
Balance, December 31, 2012	363,704	-	363,704
Additions:			
Assays	4,535	-	4,535
Drilling	-	-	-
Geological reports	29,937	-	29,937
Geophysical	4,601	-	4,601
Mapping	5,102	-	5,102
Renewal	10,092	-	10,092
Field	18,904	-	18,904
Annual exploration costs	73,171	-	73,171
Total exploration costs	436,875	-	436,875
Write-off	-	(35,000)	(35,000)
<b>Balance, December 31, 2013 and March 31, 2014</b>	<b>\$ 637,719</b>	<b>\$ -</b>	<b>\$ 637,719</b>

**Port Snettisham – Alaska USA**

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the State of Alaska, USA. In order to acquire the interest in the project, the Company must complete the following:

Make cash payments aggregating \$270,000 payable as follows:

- \$25,000 (paid) on execution of the agreement;
- \$95,000 (paid) within seven days of TSX approval; and
- \$150,000 on August 18, 2014.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited – Expressed in Canadian Dollars)

**7. EXPLORATION AND EVALUATION ASSETS (cont'd...)****Port Snettisham – Alaska USA (cont'd...)**

Incur exploration expenditures aggregating \$3,300,000 and make additional cash payments aggregating \$3,650,000 in order to maintain the option and earn an interest in the property as follows:

Year of term and expenditure date	Minimum property expenditures		Cash payments	Total deemed interest earned (%)
On or before October 31, 2012	\$ 100,000	(incurred)	\$ -	0
On or before October 31, 2013	200,000	(amended)	-	0
On or before October 31, 2014	1,000,000		-	51
On or before October 31, 2016	-		500,000	51
On or before October 31, 2018	2,000,000		-	75
On or before October 31, 2018	-		3,000,000	100

The Company issued 1,500,000 common shares, valued at \$45,000, in lieu of meeting exploration expenditure requirements of \$200,000 that were due on October 31, 2013.

The vendor retains a 2.5% NSR and at any time prior to the earlier of October 31, 2018 and on the first anniversary date upon which commercial production commences on the property, the Company may elect to reduce the NSR to 1.5% by paying the sum of \$1,500,000.

**Roberts Lake – Quebec**

During fiscal 2013, the Company made a final payment of \$35,000 to the property vendor in order to meet its obligation to return the property in good standing. The amount paid recorded was recorded in the company's loss for the period.

During fiscal 2012, all related exploration and evaluation assets for the Roberts Lake property in the amount of \$480,984 have been written-off.

**8. RELATED PARTY TRANSACTIONS**

Key management personnel compensation for the period ended March 31 was as follows:

	2014	2013
Short-term benefits paid or accrued:		
Administration fees	\$ 6,000	\$ 18,000
Consulting fees	13,500	13,500
Deferred exploration costs	-	-
Property investigation	-	-
	\$ 19,500	\$ 31,500
Share-based compensation	3,804	15,925
<b>Total remuneration</b>	\$ 23,304	\$ 47,425

Accounts payable and accrued liabilities as at March 31, 2014 included \$312,314 (December 31, 2013 - \$183,754) owed to a director and companies controlled by a director or officer.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited – Expressed in Canadian Dollars)

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2014	December 31, 2013
Due within the year		
Trade payables	\$ 498,360	\$ 446,659
Accrued liabilities	13,000	11,000
	\$ 511,360	\$ 457,659

**10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE**

Authorized – Unlimited common shares without par value

Please refer to the Statement of Changes in Equity for a summary of changes in share capital and reserve for the period ended March 31, 2014 and the year ended December 31, 2013.

No shares were issued during the period ended March 31, 2014.

During fiscal 2013, the Company issued 1,443,333 units for gross proceeds of \$43,300, each unit consisted of one common share and 1/4 share purchase warrant, each whole warrant exercisable at a price of \$0.05 for a period of one year.

**Stock options**

The Company has a stock option plan in place under which it is authorized to grant options to directors, senior officers, employees, management company employees, and consultants to acquire up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of five years. Vesting is determined by the Board of Directors.

As at March 31, 2014, the Company had stock options outstanding enabling the holder to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date	Weighted Average Life Remaining
35,000	0.10	November 16, 2014	0.63
1,450,000	0.10	February 17, 2016	1.88
2,810,000	0.10	January 3, 2017	2.76
810,000	0.10	September 26, 2017	3.49
5,105,000			2.62

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited – Expressed in Canadian Dollars)

**10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd...)****Stock options (cont'd...)**

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2012	6,690,000	0.11
Options granted	500,000	0.10
Options cancelled/expired	<u>(1,245,000)</u>	0.10
As at December 31, 2013	5,945,000	\$ 0.10
Options granted	-	0.10
Options cancelled/expired	<u>(840,000)</u>	0.10
As at March 31, 2014	5,105,000	\$ 0.10
Number of options currently exercisable	5,005,000	\$ 0.10

During the period ended March 31, 2014, 100,000 options vested. \$3,804 of share-based compensation or \$0.04 per option was recognized as calculated using the Black-Scholes option pricing model.

During the period ended March 31, 2013, 350,000 options vested. \$18,452 of share-based compensation or \$0.05 per option, was recognized as calculated using the Black-Scholes option pricing model.

There were no stock options granted during the periods ended March 31, 2014 or 2013.

**Warrants**

As at March 31, 2014, the Company had share purchase warrants outstanding enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date	Weighted Average Life Remaining
6,280,000	\$ 0.15	April 16, 2014	0.04
<u>360,833</u>	0.15	October 4, 2014	0.51
6,640,833			

**ARROWSTAR RESOURCES LTD.**  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
MARCH 31, 2014  
(Unaudited – Expressed in Canadian Dollars)

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**10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd...)**

**Warrants (cont'd...)**

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2012	18,280,000	0.15
Warrants issued	360,833	0.05
Warrants expired	<u>(12,000,000)</u>	0.15
As at December 31, 2013 and March 31, 2014	6,640,833	\$ 0.14

The options and warrants were not dilutive as at March 31, 2014 and December 31, 2013 and therefore, had no effect on diluted earnings per share for the period ended March 31, 2014 and the year ended December 31, 2013.

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

There were no significant non-cash transactions during the period ended March 31, 2014.

Significant non-cash transactions during the year ended December 31, 2013 consist of the following:

- the issuance of 1,500,000 common shares with a fair value of \$45,000 for exploration and evaluation assets;
- the application of exploration and evaluation advances to exploration and evaluation assets of \$11,721; and
- the accrual of \$73,995 (2012 - \$47,270) of exploration and evaluation assets in accounts payable and accrued liabilities.

**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of cash and marketable securities are measured at Level 1 of the fair value hierarchy. The carrying value of receivables, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

**ARROWSTAR RESOURCES LTD.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited – Expressed in Canadian Dollars)

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

**Financial risk factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote and has deposited cash in high credit quality financial institutions.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of March 31, 2014 the Company had cash balance of \$3,149 (December 31, 2013 - \$3,988) to settle current liabilities of \$511,360 (December 31, 2013 - \$457,659). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Amounts exposed to market risk include marketable securities of \$700 (December 31, 2013 - \$400).

*Interest rate risk*

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade demand investments issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

*Foreign currency risk*

The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in US Dollars. Amounts exposed to foreign currency risk include cash of US\$930 as of (December 31, 2013 – US\$954).

*Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's profit or loss due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**MARCH 31, 2014**

(Unaudited – Expressed in Canadian Dollars)

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**13. CAPITAL MANAGEMENT**

The Company defines capital that it manages as shareholders' equity, consisting of issued common shares, stock options and warrants.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. 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 property in which the Company currently has an interest is in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions.

**14. SEGMENTED INFORMATION**

The Company has operating segments in both Canada and USA. All exploration and evaluation assets are located in the USA totalling \$637,719 as at March 31, 2014 (December 31, 2013 - \$637,719).

**15. SUBSEQUENT EVENTS**

Subsequent to the period ended March 31, 2014:

- 6,280,000 share purchase warrants, exercisable at a price of \$0.15, expired unexercised; and
- the shareholders of the Company have approved a share consolidation of up to 10 pre-consolidation shares for 1 post consolidation share. The proposed action is subject to the discretion of the Board of Directors and approval from the TSX-V.