Financial Statements of

VIKING GOLD EXPLORATION INC.

For the Years Ended December 31, 2013 and 2012

VIKING GOLD EXPLORATION INC.

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Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Viking Gold Exploration Inc.

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

Management's Responsibility for the 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.

Auditor's 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 auditor's 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Viking Gold Exploration Inc. 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company had continuing losses during the year ended December 31, 2013 and a cumulative deficit as at December 31, 2013. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 30, 2014

VIKING GOLD EXPLORATION INC.

STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013 and 2012
(Expressed in Canadian dollars)

	Notes	2013	2012
ASSETS			
Non-current assets			
Exploration and evaluation assets	3	$ 1,705,233	$ 2,361,838
Equipment	4	483	1,483
Investment	5	3,800	8,000
Total non-current assets		1,709,516	2,371,321
Current assets			
Amounts receivable and prepaid expenses	6	8,223	111,848
Cash	14a	6,733	500,124
Total current assets		14,956	611,972
Total Assets		$ 1,724,472	$ 2,983,293
EQUITY AND LIABILITIES			
Equity			
Share capital	7	$ 9,025,302	$ 9,043,120
Equity-settled employee benefit reserve		779,901	873,720
Deficit		(8,747,768)	(7,586,074)
Total equity		1,057,435	2,330,766
Current liabilities			
Provision for indemnification of flow-through subscribers	9	400,000	-
Liability for flow-through share premium	7c, 9	-	69,000
Trade and other payables	10	267,037	583,527
Total current liabilities		667,037	652,527
Total Equity and Liabilities		$ 1,724,472	$ 2,983,293

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 3 and 12)

The Board of Directors approved these financial statements on April 30, 2014.
They are signed on behalf of the Board by:

/s/Mark Edwards
Director

/s/Simon Meredith
Director

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in Canadian dollars)

	Notes	2013	2012
Expenses			
Management fees	11a	$ 130,250	$ 160,733
Share-based compensation	7f, 11a	17,000	10,000
Professional and regulatory fees	3e,11a	86,486	110,332
Office and administration		62,254	94,445
Depreciation	4	1,000	1,600
Claims management		4,600	3,012
Investigation of new properties	3e,11a	366	44,539
Total expenses		301,956	424,661
Operating loss		(301,956)	(424,661)
Other income (expense)			
Interest income		-	1,680
Part XII.6 (tax) recovery and related amounts	9, 10	(66,065)	11,176
Loss on disposal of equipment	4	-	(4,208)
Unrealized loss on investment	5a	(4,200)	(3,500)
Gain on sale of investment	5b	-	18,750
Write-down of exploration and evaluation assets	3	(704,803)	-
Provision for indemnification of flow-through subscribers	9	(400,000)	-
Gain on settlements of debt	7d	39,511	-
Total other income (expense)		(1,135,557)	23,898
Loss before income taxes		(1,437,513)	(400,763)
Deferred tax (recovery)	8	(165,000)	20,000
Net loss and comprehensive loss, attributable to common shareholders		$ (1,272,513)	$ (420,763)
Basic and diluted loss per common share		$ (0.016)	$ (0.006)
Weighted-average number of common shares			
Basic		78,674,509	71,246,178
Diluted	7g	78,674,509	71,246,178

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in Canadian dollars)

	2013	2012
Operating activities		
Net loss	$ (1,272,513)	$ (420,763)
Adjusted for		
Share-based compensation	17,000	10,000
Depreciation	1,000	1,600
Other expense (income)	1,135,557	(23,898)
Deferred tax (recovery)	(165,000)	20,000
	(283,956)	(413,061)
Changes in non-cash working capital items		
Decrease (increase) in amounts receivable and prepaid expenses	103,625	(8,561)
Increase in trade and other payables, net of items (i)(iv)(v) below	149,649	8,930
Net cash used in operating activities	(30,682)	(412,692)
Investing activities		
Interest income	-	1,680
Additions to exploration and evaluation assets, net of items (i)(ii)(iii) below	(458,198)	(796,261)
Proceeds on sale of investment	-	20,000
Net cash used in investing activities	(458,198)	(774,581)
Financing activities		
Part XII.6 tax, net of item (iv) below	(4,511)	(11,925)
Issuance of private placement units	-	758,600
Issue costs of private placement units, net of items (v)(vi) below	-	(76,183)
Exercise of warrants	-	8,800
Net cash (used in) provided by financing activities	(4,511)	679,292
Net decrease in cash	(493,391)	(507,981)
Cash and Cash Equivalents (Note 14a)		
Beginning of year	500,124	1,008,105
End of year	$ 6,733	$ 500,124

Additional information:

	2013	2012
(i) (Decrease) increase in accrued E&E expenditures	$ (428,000)	$ 50,445
(ii) Common shares issued to acquire E&E assets	18,000	34,250
(iii) Non-cash option payment received	-	(3,000)
(iv) Increase (decrease) in accrued Part XII.6 tax and related amounts	61,554	(23,101)
(v) Decrease in trade payables due to debt settlement	(99,693)	-
(vi) Value of other warrants issued	-	(17,000)

See accompanying notes to the financial statements.

VIKING GOLD EXPLORATION INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Expressed in Canadian dollars)

	Notes	# of Issued and outstanding common shares	Share capital	Equity-settled employee benefit reserve	Deficit	Total equity
Balance – January 1, 2012		70,569,369	$ 8,383,653	$ 911,055	$ (7,229,646)	$ 2,065,062
Proceeds from private placement						
Non-flow-through units	7c	1,681,000	191,720	-	-	191,720
Flow-through units	7c	4,724,000	566,880	-	-	566,880
Allocated to flow-through share premium	7c	-	(69,000)	-	-	(69,000)
Shares issued to acquire E&E assets	3f	300,000	34,250	-	-	34,250
Issue costs	7c	-	(76,183)	-	-	(76,183)
Issue costs – deferred tax	8	-	20,000	-	-	20,000
Other warrants issued	7e	-	(17,000)	-	17,000	-
Exercise of warrants	7e	110,000	8,800	-	-	8,800
Comprehensive loss for year		-	-	-	(420,763)	(420,763)
Share-based compensation	7f, 11	-	-	10,000	-	10,000
Options expired	7f	-	-	(47,335)	47,335	-
Net change for the year		6,815,000	659,467	(37,335)	(356,428)	265,704
Balance – December 31, 2012		77,384,369	$ 9,043,120	$ 873,720	$ (7,586,074)	$ 2,330,766
Balance – January 1, 2013		77,384,369	$ 9,043,120	$ 873,720	$ (7,586,074)	$ 2,330,766
Shares issued to acquire E&E assets	3f	400,000	18,000	-	-	18,000
Units issued for debt settlements	7d	1,993,860	60,182	-	-	60,182
Comprehensive loss for year		-	-	-	(1,272,513)	(1,272,513)
Share-based compensation	7f, 11	-	-	17,000	-	17,000
Expired warrants – deferred tax	8	-	(96,000)	-	-	(96,000)
Options expired	7f	-	-	(110,819)	110,819	-
Net change for the year		2,393,860	(17,818)	(93,819)	(1,161,694)	(1,273,331)
Balance – December 31, 2013		79,778,229	$ 9,025,302	$ 779,901	$ (8,747,768)	$ 1,057,435

See accompanying notes to the financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Viking Gold Exploration Inc. (the "Company") is a Canadian mineral exploration company with interests in projects located in Ontario and Quebec. The Company's shares are publicly traded on the TSX Venture Exchange ("TSX-V") under the trading symbol "VGC". The Company currently has no subsidiaries.

The Company's exploration projects are described in Note 3. There has been no determination whether the Company's properties contain mineral reserves that are economically recoverable. Since its reorganization in 2004, the Company has not earned significant revenue and is considered to be an exploration stage entity.

During the year ended December 31, 2013, the Company had a net loss of $1,272,513 and an accumulated deficit of $8,747,768 as at December 31, 2013, and it has not generated positive cash flow from operations. As at December 31, 2013, the Company also had a working capital deficiency of $652,081.

Continuing operations of the Company are dependent on its ability to generate future cash flows, obtain additional financing and secure debt settlements with creditors. Management believes that sufficient working capital will be obtained from external financing to meet the Company's current and future liabilities and commitments as they become due, though there is a significant risk that additional financing may not be available on a timely basis or on terms acceptable to the Company.

See Note 16d for information about a non-brokered private placement of convertible debentures after December 31, 2013.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. Such adjustments could be material. As a result of the financial matters discussed above, there is significant doubt regarding the ultimate applicability of the Company's going concern assumption.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

The address of the Company's registered office is #2B – 2900 John Street, Markham, Ontario, Canada, L3R 5G3.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") effective for the Company's current year ended December 31, 2013, as issued and outstanding as of the date of the Board of Director's approval. The accounting policies have been applied consistently to all periods presented in these financial statements.

b) Basis of Measurement

These financial statements are prepared on the historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements are prepared using the accrual basis of accounting except for cash flow information. The Company uses the Canadian dollar for both its functional and presentation currencies.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Use of Judgements, Estimates and Assumptions
The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The estimates and underlying assumptions are based on historical experience and other factors believed to be reasonable under the circumstances. Accounting estimates are reviewed on an ongoing basis and revisions are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant items in these financial statements that involve the use of estimates include the following items: the valuation of exploration and evaluation assets (Note 2e); share-based compensation (Note 2m); decommissioning, restoration and similar obligations (Note 2h); the valuation of deferred income tax assets (Note 2j); and the valuation of a flow-through subscriber indemnification accrual (Note 9). Each of these referenced notes provides insight into key factors management considers in formulating its estimates.

d) Financial Instruments
Financial instruments consist of financial assets and liabilities and are initially measured at fair value. The accounting policies for financial instruments are described below and the composition of the year-end financial instruments and related risks are disclosed in Note 14.

Financial Assets
The Company classifies each financial asset into one of four categories depending on the purpose for which the asset was acquired.

(i) Financial Assets at Fair Value Through Profit or Loss ("FVTPL")
Assets in this category are derivatives or other assets held for trading (i.e. acquired or incurred principally for the purpose of selling or repurchasing in the near term) or designated as FVTPL upon initial recognition. After initial recognition, such assets are measured at fair value with changes therein being recognized in profit or loss. The Company has no derivative financial instruments.

(ii) Available For Sale ("AFS")
Assets in this category are non-derivative financial assets that are either designated as available for sale or do not fit into one of the other categories. After initial recognition, AFS assets are measured at fair value with changes therein (excluding those attributable to impairment) being recognized directly in other comprehensive income (loss). The Company has no AFS assets.

(iii) Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. For loans and receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss. The Company has cash and amounts receivables, which are classified as loans and receivables.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial Instruments (Continued)

Financial Assets (Continued)

(iv) Held to Maturity

Assets in this category are financial assets with known payments and a fixed maturity date. In addition, the Company has the positive intention and ability to hold the financial asset to maturity, other than those initially designated as held for trading, available for sale, or loans and receivables as explained above. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method. The Company has no held-to-maturity financial assets.

Financial Liabilities

The Company classifies each financial liability into one of two categories depending on the purpose for which the liability was incurred.

(i) Financial Liabilities at FVTPL

Liabilities in this category are derivatives or liabilities classified as held for trading or designated as FVTPL upon initial recognition. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Company has no held-for-trading financial liabilities.

(ii) Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as held for trading. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The Company has trade and other payables, which are classified as other financial liabilities. The Company's liability for flow-through share premium is considered to be a deferred credit and not a financial liability.

Transaction Costs

For FVTPL financial assets and liabilities, transaction costs on initial recognition, and thereafter, are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate, i.e. amortized through profit or loss over the term of the related instrument.

Fair Value Hierarchy

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 included within Level 1 that are observable for the asset or liability either directly or indirectly (e.g. broker quotes); and
Level 3 – Inputs for assets or liabilities that are not based on observable market data.

Financial assets and liabilities are recognized in the Statement of Financial Position when the Company has become party to the contractual provision of the instruments.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Mineral Properties

The Company's accounting policies for mineral property interests are as follows:

Pre-exploration Phase

Prospecting and other pre-exploration expenditures incurred before the Company has the legal right to explore a mineral property are charged to profit or loss as incurred.

Exploration and Evaluation ("E&E") Phase

Acquisition costs and deferred exploration expenditures are capitalized to intangible assets. Acquisition costs are the costs of acquiring legal rights to explore a mineral property. Deferred exploration expenditures are exploration and evaluation expenditures incurred after the Company has secured the legal rights to explore.

Acquisition costs include cash consideration paid and the fair market value of shares issued by the Company. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. Deferred exploration expenditures include such items as drilling and camps, transportation, technical studies, assays, consulting fees and property-specific general and administrative expenses. Amounts recovered, including option payments and administrative fees earned from exploration partners, are applied as a reduction of the cost of the related mineral property interest.

The Company assesses its individual exploration and evaluation properties for impairment when facts and circumstances indicate that the carrying amount may not be recoverable. The expiry of rights to explore, the cessation of planned exploration activities, and the indication of mineral reserves that are insufficient to recover the capitalized costs are important factors the Company considers in identifying impairment. When an impairment situation is identified, a write-down of the related intangible asset is charged to profit or loss. The Company's write-downs of E&E assets in 2013 due to impairment are discussed in Note 3.

As at December 31, 2013, the Company has five properties in the E&E phase.

Development and Production Phase

When the technical feasibility and commercial viability of extraction of an exploration property are determined, the related intangible assets are transferred to property, plant and equipment. Development costs incurred thereafter to bring an actual mine into production are capitalized to property, plant and equipment. Once commercial production has commenced, the net costs of the applicable mineral property are charged to profit or loss using the unit-of-production method based on estimated recoverable reserves. Production costs for the period are allocated to inventory and profit or loss as appropriate. The Company's accounting policy for impairment of mineral property interests under development and in production is described in Note 2g. The Company currently has no mineral properties in the development and production phase.

f) Equipment

Items of equipment are recorded at cost less accumulated depreciation and impairment losses. The Company recognizes, in the carrying amount of an item of equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are charged to profit or loss as incurred. Depreciation of equipment is provided on a declining-balance basis over the estimated useful life at a rate of 20%.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Impairment

The carrying amounts of the Company's non-current assets (except exploration and evaluation assets which are tested for impairment consistent with the policy disclosed in Note 2e) are reviewed at each reporting date to determine whether there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated. An impairment loss is charged to profit or loss whenever the carrying amount of an asset (or its cash-generating unit) exceeds its recoverable amount. An asset's recoverable amount is the greater of its fair value less costs to sell and its value-in-use (calculated as the present value of expected future cash flows). Impairment losses, other than for goodwill, may be reversed if there has been a change in the estimates used to determine the recoverable amount.

h) Decommissioning, Restoration and Similar Obligations

Obligations to perform, or fund, site decommissioning, restoration or other rehabilitative work arise when a disturbance to a mineral property is caused by exploration, development or production. The costs associated with these obligations are capitalized to the asset's carrying value and accrued as liabilities as incurred, using a current pre-tax risk-free interest rate and based on management's assumptions and best estimates. Capitalized costs are charged to profit or loss over the economic life of the related asset using the unit-of-production method of amortization. The related liability is adjusted each period for changes in the current pre-tax risk-free interest rate, and the amount and timing of the underlying cash flows needed to settle the obligation. The increase in provisions for decommissioning, restoration and similar obligations due to the passage of time, is charged to profit or loss as a finance cost. The Company is not aware of any existing material decommissioning, restoration or similar obligations, as the disturbance to mineral properties through exploration to date is minimal.

i) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. The Company does not invest in any asset-backed deposits or investments. The Company has no banking arrangements for overdrafts or borrowings.

j) Income Taxes

Income tax expense (recovery) included in profit or loss is the sum of current and deferred tax as explained below.

Current Tax

Current tax is the expected income tax payable (recoverable) on the taxable income (loss) for the period, using tax rates enacted, or substantively enacted, as at the reporting date. Current tax expense (recovery) included in profit or loss reflects the current tax for the reporting period, plus adjustments to the current tax of prior periods, less current tax recorded directly in other comprehensive income (loss) or equity.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences and unused tax losses and tax credits can be utilized. Deferred tax is calculated on a non-discounted basis, using tax rates enacted, or substantively enacted, as at the reporting date. The carrying amounts of individual deferred tax assets are reviewed at the reporting date but are only recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Income Taxes (Continued)
Deferred Tax (Continued)
The deferred tax (recovery) expense included in profit or loss reflects the net change in deferred tax assets and liabilities, less deferred tax recorded directly in other comprehensive income (loss) or equity, less adjustments for flow-through premiums as further explained in Note 2l.

In assessing the probability that a potential deferred tax asset will be recovered, management makes estimates as to the Company's future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences, and the likelihood that tax positions taken by the Company will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

k) Share Capital and Common Share Purchase Warrants
The Company's common shares are classified as equity and may be issued on either a flow-through or non-flow-through basis. Certain unique aspects of flow-through shares are discussed in greater detail in Note 2l.

The Company periodically issues 'units' to investors consisting of common shares and common share purchase warrants in private placements. Each whole warrant issued entitles the holder to acquire a common share of the Company at a fixed Canadian dollar price over a specified term. These warrants are not transferable from the original investor to a new investor. The Company's investor warrants are equity instruments and not financial liabilities or financial derivatives. Accordingly, gross investor proceeds received from the issuance of units are accounted for as an increase in share capital. No separate valuation (i.e. "bifurcation") of investor warrants is made for accounting purposes at the time of issuance or at any time thereafter.

Transaction costs directly attributable to the issuance of units (such as legal, finders' and regulatory fees) are recognized as a decrease in share capital net of related income tax effects. Other warrants (e.g. broker warrants issued in a private placement) are also included in transaction costs at their estimated issue date fair value as determined using the Black-Scholes option-pricing model. An offsetting credit is recorded in equity as a reduction of deficit.

When investor or other warrants are exercised, the proceeds received are added to share capital. When investor or other warrants expire unexercised, a related income tax charge is, if material, deducted from share capital.

The Company makes full and relevant disclosure of outstanding investor and other warrants in its financial statements, so that readers can assess the impact of potential future warrant exercises on the Company's cash flows and outstanding shares.

Management makes assumptions and judgements in applying the Black-Scholes option-pricing model as a market-based valuation technique. These assumptions and judgements include estimating the future volatility of the stock price, the expected dividend yield, and the risk-free interest rate. Such assumptions and judgements are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Flow-through Shares

The Company finances its exploration activities through the issuance of flow-through common shares. These shares transfer the tax deductibility of resource expenditures to investors. While IFRS contains no specific guidance on accounting for flow-through shares, the Company has chosen to adopt the accounting policy described below.

At the time of issuing flow-through shares, the Company allocates the proceeds of issuance to share capital and the sale of tax benefits. The allocation to tax benefits is recorded as a liability and is based on the estimated premium, if any, an investor pays for the common shares over the value of the shares issued based on the quoted price.

As qualifying exploration expenditures are made in each reporting period, the Company capitalizes these costs to intangible assets as explained in Note 2e. If the Company intends to formally renounce these expenditures to investors under an existing flow-through agreement (whether using the "General Rule" or "Look-back Rule" as permitted under Canadian income tax regulations), it earmarks them as "effectively renounced" as at the end of the reporting period, and records a related deferred tax expense/liability net of a proportionate amount of any related share issue premium. At the end of each reporting period, the Company discloses its outstanding flow-through expenditure commitment (see Note 12a).

m) Share-based Payments

The Company's accounting policies for share-based payments are outlined below.

Employees

The term "employees" as used in these financial statements includes all officers, directors and others, including persons providing services that are similar to those provided by employees, e.g. certain consultants.

Equity-settled Transactions

An equity-settled transaction occurs when the Company enters into an agreement to acquire goods or services in exchange for its shares or other equity instruments. Such transactions are recorded at the fair value of the goods or services received. When shares or other securities are issued to compensate key employees, the fair value is determined using the market value of the securities issued. When employees purchase shares or other securities on the same terms as non-employee investors, such transactions are not treated as share-based payments. Instead, see Notes 2k and 2l.

Common share purchase options ("options") are granted to key employees as performance incentives. The fair value of options granted is determined using the Black-Scholes option-pricing model. This amount is recognized as a compensation expense in profit or loss at time of vesting with offsetting credits recorded to an equity-settled employee benefit reserve. When options are exercised, a transfer is made from the reserve to share capital and added to the proceeds of issuance. When options expire or are forfeited, a transfer is made from the reserve to deficit. Accordingly, the balance of the reserve at each reporting date reflects the Company's unexpired/unexercised vested options.

The Company's stock option plan is described in Note 7f. A summary of compensation expense for options granted is presented in Note 11. The Company's accounting policies for share-based payments made to acquire mineral property interests or to compensate brokers are discussed in Notes 2e and 2k.

Cash-settled Transactions

A cash-settled transaction occurs when the Company enters into an agreement in which it incurs a liability linked to the Company's share price. Such transactions are recorded at the grant date but are subsequently re-measured to fair value in each period, until the liability is settled. The Company has not entered into any cash-settled transactions.

Continued…

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated in a similar manner, but with adjustments to give full effect to all dilutive potential common shares that were outstanding during the period. Anti-dilutive effects of potential conversions of securities are ignored for this calculation. Out-of-the-money warrants and options are considered to be anti-dilutive.

o) Mineral Property Agreements With Other Parties

A portion of the Company's activities is conducted jointly with other parties wherein the Company enters into agreements that provide for specified percentage interests in mineral properties. Once the parties have earned their respective interests and undertake to conduct further acquisition, exploration or development through a joint venture or other legal arrangement, the Company determines the proper accounting treatment for its continued interest in the mineral property.

Where the property is subject to the shared joint control of the parties (i.e. unanimous consent is required to make decisions), the Company discloses this relationship as a joint arrangement. A joint arrangement may be either a joint operation or a joint venture. In a joint operation, the parties ("joint operators") have rights to the assets, and obligations for the liabilities, relating to the arrangement. As such, each joint operator records its share of any assets, liabilities, revenues and expenses of the joint operation. In a joint venture, the parties ("joint venturers") have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method.

Where shared joint control is not present, the Company discloses this relationship as being one of "undivided working interests" and instead recognizes its assets, liabilities, revenue and expenses and/or its relative shares thereof related to the property.

In either case, costs incurred during earn-in periods remain capitalized and are added to amounts recorded thereafter, subject to any overriding impairment tests. The Company currently has no joint arrangements and one undivided working interest.

p) New IFRS Accounting Standards

The Company has adopted nine new IFRS accounting standards, including amendments and interpretations to existing standards, as of January 1, 2013. The adoption of these new accounting standards did not affect any of the amounts or disclosures presented in these financial statements. The newly adopted IFRS standards are described below, along with other proposed standards yet to be adopted. Each new standard applies to annual periods beginning on or after the stated effective date.

New IFRS standards	Description	Effective dates
• Amendments to IFRS 7 – Financial Instruments: Disclosures (December 2011 and November 2013)	The 2011 amendments improve offsetting rules and related disclosures for financial instruments. The 2013 amendments result from the introduction of a hedge accounting chapter in IFRS 9.	January 1, 2018
• Amendments to IFRS 9 – Financial Instruments (October 2010 and November 2013)	The 2010 amendments provide guidance on the classification and measurement of financial liabilities. The 2013 amendments contain a hedge accounting chapter and permit the early application of presenting certain items in other comprehensive income.	January 1, 2018

Continued…

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) New IFRS Accounting Standards (Continued)

New IFRS standards	Description	Effective dates
• IFRS 10 – Consolidated Financial Statements (issued May 2011, amended June 2012)	The new standard and related amendments provide a new definition of control, which is intended to provide more consistent guidance in the determination of whether control exists to justify consolidation of investees.	January 1, 2013 (adopted #1)
• IFRS 11 – Joint Arrangements (issued May 2011, amended June 2012)	The new standard and related amendments address inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.	January 1, 2013 (adopted #2)
• IFRS 12 – Disclosure of Interests in Other Entities (issued May 2011, amended June 2012)	The new standard and related amendments set out disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-statement-of-financial-position vehicles.	January 1, 2013 (adopted #3)
• IFRS 13 – Fair Value Measurement (issued May 2011, amended December 2013)	The new standard and related amendments provide guidance on measuring fair value when required by other IFRSs.	January 1, 2013 (adopted #4) and July 1, 2014
• Amendments to IAS 1 – Presentation of Financial Statements (May 2012)	The amendments deal with the reporting of comparative information.	January 1, 2013 (adopted #5)
• Amendments to IAS 19 – Employee Benefits (June 2011 and November 2013)	The 2011 amendments result from the post-retirement and termination benefits projects. The 2013 amendments deal with contributions from employees and third parties that are linked to service.	January 1, 2013 (adopted #6) and July 1, 2014
• Amendments to IAS 27 – Separate Financial Statements (May 2011)	The amendments address accounting and disclosure for investments in subsidiaries, joint ventures and associates in separate financial statements.	January 1, 2013 (adopted #7)
• Amendments to IAS 28 – Investments in Associates and Joint Ventures (May 2011)	The amendments establish accounting principles for investments in associates under significant influence and also set out the equity method of accounting for investments in associates and joint ventures.	January 1, 2013 (adopted #8)

Continued…

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) New IFRS Accounting Standards (Continued)

New IFRS standards	Description	Effective dates
• Amendments to IAS 32 – Financial Instruments: Presentation (December 2011 and May 2012)	The 2011 amendments (effective January 1, 2014) improve offsetting rules and related disclosures for financial instruments (see IFRS 7 amendments above). The 2012 amendments (effective January 1, 2013) deal with the tax effect of equity distributions.	January 1, 2013 (adopted #9) and January 1, 2014
• Amendments to IAS 36 – Impairment of Assets (May 2013)	The amendments deal with recoverable amount disclosures for non-financial assets.	January 1, 2014
• Amendments to IAS 38 – Financial Instruments (December 2013)	The amendments deal with the proportionate restatement of accumulated depreciation on revaluation.	July 1, 2014
• Amendments to IAS 39 – Financial Instruments (June 2013)	The amendments deal with the novation of derivatives and continuation of hedge accounting.	January 1, 2014

The new IFRS accounting standards listed above exclude any applicable to investment entities, since they do not apply to the Company. Management is currently assessing the impact of adopting the eight remaining new IFRS accounting standards on the Company's financial reporting.

3. EXPLORATION AND EVALUATION ASSETS

During the year ended December 31, 2013, the Company acquired one mineral property interest in Quebec (Vent d'Or) and wrote off two such interests – one in Ontario (Venton Lake) and one in Quebec (Guyenne). Below is a summary of the Company's five exploration properties as at December 31, 2013.

Properties	Year Acquired	Notes	Current Mineral Tenure	# of Claims/ Leases
Larose, Ontario	2011	3b	Claims, under option by the Company to a third party which may earn up to a 50% interest	16
Total Ontario properties				16
Verneuil, Quebec				
Verneuil Central	2011	3b	Claims; 70% undivided working interest	22
Verneuil West	2011	3b	Claims; 100% interest	20
Verneuil East	2011	3b	Claims; 100% interest	9
				51
Vent d'Or, Quebec	2013	3d	Claims, under option to the Company which may earn a 100% interest	29
Total Quebec properties				80
Total properties				96

Continued…

(Expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS (Continued)

A continuity schedule of the Company's exploration and evaluation (E&E) assets for the years ended December 31, 2012 and 2013 follows. Additional information about the Company's properties is presented thereafter.

	Balance, January 1, 2012	Expenditures for 2012	Balance, December 31, 2012	Expenditures for 2013	Write-offs for 2013	Balance, December 31, 2013
Acquisition costs						
Venton Lake, ON	$ 112,536	$ 79,250	$ 191,786	$ -	$ (191,786)	$ -
Larose, ON	93,028	7,000	100,028	5,000	-	105,028
Verneuil, QC						
Verneuil Central	137,372	-	137,372	-	-	137,372
Verneuil West	93,926	-	93,926	-	-	93,926
Verneuil East	65,615		65,615	-	-	65,615
Guyenne, QC	-	62,675	62,675	-	(62,675)	-
Vent d'Or, QC	-	-	-	35,590	-	35,590
Active properties	502,477	148,925	651,402	40,590	(254,461)	437,531
Inactive properties						
Morris Lake, NT	5	-	5	-	(5)	-
Total properties	502,482	148,925	651,407	40,590	(254,466)	437,531
Deferred expl'n expenditures						
Venton Lake, ON	-	85,654	85,654	-	(85,654)	-
Larose, ON	179	-	179	-	-	179
Verneuil, QC						
Verneuil Central	718,829	14,011	732,840	2,349	-	735,189
Verneuil West	164,214	247,735	411,949	1,000	-	412,949
Verneuil East	98,177	20,279	118,456	-	-	118,456
Guyenne, QC	-	361,352	361,352	3,330	(364,682)	-
Vent d'Or, QC	-	-	-	929	-	929
Active properties	981,399	729,031	1,710,430	7,608	(450,336)	1,267,702
Inactive properties						
Morris Lake, NT	1	-	1	-	(1)	-
Total properties	981,400	729,031	1,710,431	7,608	(450,337)	1,267,702
Total expenditures						
Venton Lake, ON	112,536	164,904	277,440	-	(277,440)	-
Larose, ON	93,207	7,000	100,207	5,000	-	105,207
Verneuil, QC						
Verneuil Central	856,201	14,011	870,212	2,349	-	872,561
Verneuil West	258,140	247,735	505,875	1,000	-	506,875
Verneuil East	163,792	20,279	184,071	-	-	184,071
Guyenne, QC	-	424,027	424,027	3,330	(427,357)	-
Vent d'Or, QC	-	-	-	36,519	-	36,519
Active properties	1,483,876	877,956	2,361,832	48,198	(704,797)	1,705,233
Inactive properties						
Morris Lake, NT	6	-	6	-	(6)	-
Total properties	$ 1,483,882	$ 877,956	$ 2,361,838	$ 48,198	$ (704,803)	$ 1,705,233

ON = Ontario; QC = Quebec; NT = Northwest Territories

Acquisition costs are discussed further in Note 3f.

Continued…

3. EXPLORATION AND EVALUATION ASSETS (Continued)

a) Venton Lake

On April 12, 2011, the Company signed a letter agreement in which it was granted an option to earn a 100% undivided interest in 13 mining claims located near Thunder Bay, Ontario known as "Venton Lake". The agreement provides that the Company (as optionee) will earn a 100% interest in the property by making an initial $75,000 cash payment followed by three additional annual cash payments of $75,000 each from the "Effective Date" (of the transaction) which is defined as the date the TSX-V approves the transaction plus 10 days. Each respective cash payment is also to be accompanied by the issuance of the Company's common shares to the optionor, as follows – 150,000 shares (initial – completed), 50,000 shares (after the first year – completed), 50,000 shares (after the second year) and 100,000 shares (after the third year), for a total of 350,000 shares.

Upon the exercise of the option, the optionor will retain a 2.5% net smelter return royalty ("NSR") on output from the properties following the commencement of commercial production. For the period commencing on the date that is 60 months following the Effective Date and ending on the commencement of commercial production, the Company is required to pay an advance minimum royalty of $15,000 per year to the optionor within 30 days of the start of each year, which aggregate amounts shall be deducted from the subsequent 2.5% NSR payments. The Company may buy back up to one-fifth of the 2.5% NSR at a price of $500,000, for a period of 20 years from the Effective Date. The Company may abandon the option granted to it by giving 30 days notice prior to abandonment, provided that the mineral rights will be in good standing for at least six months following the date of abandonment.

The TSX-V approved the Venton Lake transaction on April 26, 2011 and the transaction closed on September 19, 2011.

On April 26, 2012, the Company issued 50,000 common shares as a share-based option payment for the Venton Lake property. The fair value of the shares issued was $4,250. On May 24, 2012, the Company also paid $30,000 towards its first annual $75,000 cash option payment, and was granted an extension by the optionor to pay the $45,000 balance by August 31, 2012. On August 27, 2012, the Company completed the necessary payment.

In 2013, the Company did not make its scheduled option payment and was unsuccessful in its attempts to renegotiate its Venton Lake option agreement under more favourable terms. On December 18, 2013, the optionor informed the Company that the option was being terminated. Accordingly, the Company recorded a $277,440 write-off of the Venton Lake property effective December 31, 2013.

b) Verneuil and Larose

On May 10, 2011, the Company signed a property sale agreement with Freewest Resources Canada Inc. ("Freewest"), a wholly owned subsidiary of Cliffs Natural Resources Inc. (NYSE: CLF), in which it agreed to acquire a 70% undivided working interest in the Verneuil property ("Verneuil Central") and a 100% undivided interest in the Larose property ("Larose"), in exchange for a combined share-based payment of 1,000,000 common shares (valued at the $200,000 fair value of the shares issued) and a 0.5% NSR on each property.

Verneuil Central is comprised of 22 claims in Verneuil Township in the Abitibi region of Quebec. The other 30% interest in Verneuil Central is held by Golden Tag Resources Ltd. ("Golden Tag"). Larose is comprised of 16 claims in Moss Township in Northwestern Ontario. Verneuil Central is subject to an existing 1% NSR and Larose to an existing 3% NSR. The NSR's described herein apply to all minerals in perpetuity.

Continued…

3. EXPLORATION AND EVALUATION ASSETS (Continued)

b) Verneuil and Larose (Continued)

On June 7, 2011, the Company signed a letter agreement with other parties in which it agreed to acquire "Verneuil East", a 100% undivided interest in 9 mining claims located immediately east of Verneuil Central, in exchange for cash of $20,000 (paid), a share-based payment of 200,000 common shares (issued) and a 2% NSR in perpetuity. The Company may re-purchase half of the 2% NSR for $1,000,000 at any time.

On June 13, 2011, the Company signed a letter agreement with other parties in which it agreed to acquire "Verneuil West", a 100% undivided interest in 20 mining claims located immediately west of Verneuil Central, in exchange for cash of $30,000 (paid), a share-based payment of 300,000 common shares (issued) and 150,000 warrants (issued and exercisable at a price of $0.30 for 2 years), and a 2% NSR in perpetuity. The Company may re-purchase half of the 2% NSR for $1,000,000 at any time.

The TSX-V approved the Verneuil/Larose transaction on May 27, 2011 and the Verneuil East and West transactions on June 21, 2011. These three transactions closed on June 28, July 20 and June 29, 2011, respectively.

The Company and Golden Tag agreed that Golden Tag was not required to contribute financially towards deferred exploration expenditures incurred on the Verneuil Central property prior to January 1, 2012. For the year ended December 31, 2012, the parties further agreed that Golden Tag's share of the Verneuil Central exploration expenditures was $100,000. As at December 31, 2012, this amount had been received and was therefore recorded as a reduction of deferred exploration expenditures (i.e. included in the $14,011 net deferred exploration expenditure for Verneuil Central in the continuity schedule for 2012).

On December 8, 2011, the Company entered into an option agreement with Golden Share Mining Corporation ("Golden Share") whereby Golden Share may earn up to a 50% interest in the Larose property. Under the terms of the agreement, Golden Share agreed to issue: (i) 100,000 shares to the Company on the later of execution of the agreement and TSX-V approval (received with an assigned value of $8,500) and (ii) an additional 100,000 shares on the first anniversary date of the agreement (received with an assigned value of $3,000 on December 13, 2012). Golden Share also agreed to spend $200,000 in the first year of the agreement on exploration of the property (completed) plus another $150,000 in each of years two and three of the agreement. The parties agreed that at the time they become 50/50 owners in the property, they would enter into a joint venture agreement with Golden Share as the operator.

On December 18, 2012, the parties amended the December 8, 2011 option agreement to allow Golden Share to extend the second year commitment by one year (i.e. to December 8, 2014), and move the third year commitment into a fourth year (i.e. which ends on December 8, 2015). Golden Share also agreed to pay $5,000 of a June 2013 $10,000 advance royalty payment (both completed, see Note 3f), which the Company is responsible for.

See Note 16b for information about the termination of the Golden Share option after December 31, 2013.

Continued…

3. EXPLORATION AND EVALUATION ASSETS (Continued)

c) Guyenne

On August 29, 2012, the Company entered into an option agreement with Globex Mining Enterprises Inc. (TSX:GMX, hereafter "Globex") to earn a 50% interest in the 7 claims known as the Guyenne Property. The claims are situated approximately 40 kilometres northwest of Amos, Quebec, which is northwest of Val-d'Or in the Abitibi Mining District.

Under the terms of the option agreement, the Company agreed to pay a total of $105,000 cash and issue 550,000 common shares to Globex as follows – (i) an initial payment of $20,000 and 150,000 shares, representing the minimum commitment (completed), (ii) $25,000 and 150,000 shares on or before the first anniversary date, and (iii) $60,000 and 250,000 shares on or before the second anniversary date. In addition, the Company agreed to spend a minimum of $1,500,000 exploring the claims, as follows – $250,000 in the first year (completed), $250,000 in the second year, and $1,000,000 in the third year.

The TSX-V approved the Guyenne transaction on September 18, 2012. The transaction closed on September 19, 2012. The Company also agreed to issue 100,000 common shares as a finder's fee on the closing of the option agreement. These shares were issued on October 3, 2012 at an assigned value of $10,500.

After reviewing exploration results, the Company informed Globex on August 7, 2013 that it was terminating the option. The Company recorded a $427,357 write-off of this E&E asset effective June 30, 2013.

d) Vent d'Or

On March 4, 2013, the Company entered into an option agreement to earn a 100% undivided interest in the Vent d'Or Property. Vent d'Or, which consisted of 44 mineral claims (reduced to 29 claims as at December 31, 2013), is located southwest of the town of Chibougamau in the Druillettes and Hazur Townships in Central Quebec.

Under the terms of the option agreement, the Company will pay a total of $90,000 cash and issue 1,000,000 common shares to the optionor as follows – (i) an initial payment of $15,000 and 400,000 shares (paid on March 4 and issued on March 21, 2013, respectively); (ii) $30,000 and 300,000 common shares on or before June 1, 2014; and (iii) $45,000 and 300,000 common shares on or before June 1, 2015. In addition, the Company has agreed to grant a 2% NSR royalty to the optionor. The Company may acquire 50% of the NSR by making a payment of $1,000,000.

The TSX-V approved the Vent d'Or transaction on March 18, 2013 and the transaction closed on March 25, 2013.

e) Uruguay – Agreement Terminated

On November 15, 2012, the Company signed a non-binding letter of intent to acquire Trilogy Mining Corporation ("Trilogy"), a privately owned Canadian mineral explorer active in Uruguay. The Company proposed a share-for-share exchange with the shareholders of Trilogy, whereby the Company would issue 15,000,000 common shares from treasury in exchange for 100% of the shares of Trilogy.

The parties intended to execute a definitive agreement after the completion of all necessary due diligence. The agreements and transactions contemplated were subject to the final approval of the TSX-V. The transaction was originally scheduled to close on January 31, 2013 assuming all conditions in the agreement were satisfied. Thereafter, the parties extended the planned closing date to April 30, 2013. On May 2, 2013, the Company announced that the parties had jointly agreed to allow their non-binding letter of intent to lapse. Investigation of new properties expense and professional and regulatory fees expense includes approximately $11,000 (expensed in 2012) and $25,000 (expensed in 2013), respectively, attributable to this cancelled transaction.

Continued…

(Expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS (Continued)

f) Acquisition Costs Summary

Acquisition costs of exploration and evaluation assets for the years ended December 31, 2012 and 2013 are summarized below. The values assigned to the common shares issued by the Company were based on the closing share price on the respective dates of issuance.

Properties	# of common shares issued	Value of common shares Issued	Cash payments made	Option payments rec'd	Legal and other	Totals
Year ended December 31, 2012:						
Venton Lake, ON	50,000	$ 4,250	$ 75,000	$ -	$ -	$ 79,250
Larose, ON	-	-	(1) 10,000	(2) (3,000)	-	7,000
Guyenne, QC	(3) 250,000	30,000	20,000	-	12,675	62,675
Acquisition costs for year	300,000	$ 34,250	$ 105,000	$ (3,000)	$ 12,675	$ 148,925
Year ended December 31, 2013:						
Larose, ON	-	$ -	(1) $ 10,000	(4) $ (5,000)	$ -	$ 5,000
Vent d'Or, QC	400,000	18,000	15,000	-	2,590	35,590
Acquisition costs for year	400,000	$ 18,000	$ 25,000	$ (5,000)	$ 2,590	$ 40,590

Comments:

(1) = Advance royalty payment made pursuant to an existing 3% NSR
(2) = Issue date fair value of shares of Golden Share received as option payments (see Notes 3b and 5)
(3) = Includes finder's fee of 100,000 common shares (see Note 3c)
(4) = Recovery of 50% of advance royalty payment from Golden Share (see Note 3b)

Continued…

(Expressed in Canadian dollars)

4. EQUIPMENT

A continuity schedule of the Company's equipment for the years ended December 31, 2012 and 2013 follows.

Year ended December 31, 2012	Field equipment	Office equipment	Total
Cost			
As at January 1, 2012	$ 13,203	$ 2,585	$ 15,788
Additions for year	-	-	-
Disposals for year	(13,203)	-	(13,203)
As at December 31, 2012	-	2,585	2,585
Accumulated Depreciation			
As at January 1, 2012	7,795	702	8,497
Depreciation for year	1,200	400	1,600
Disposals for year	(8,995)	-	(8,995)
As at December 31, 2012	-	1,102	1,102
Net Book Value			
As at January 1, 2012	$ 5,408	$ 1,883	$ 7,291
As at December 31, 2012	$ -	$ 1,483	$ 1,483

Year ended December 31, 2013	Field equipment	Office equipment	Total
Cost			
As at January 1, 2013	$ -	$ 2,585	$ 2,585
Additions for year	-	-	-
As at December 31, 2013	-	2,585	2,585
Accumulated Depreciation			
As at January 1, 2013	-	1,102	1,102
Depreciation for year	-	1,000	1,000
As at December 31, 2013	-	2,102	2,102
Net Book Value			
As at January 1, 2013	$ -	$ 1,483	$ 1,483
As at December 31, 2013	$ -	$ 483	$ 483

During the year ended December 31, 2012, the Company disposed of its field equipment at Morris Lake, Northwest Territories for nil proceeds, resulting in a loss on disposal of $4,208.

Continued…

(Expressed in Canadian dollars)

5. INVESTMENTS

a) Held-For-Trading Investment

	2013	2012
Held-For-Trading Investment		
Investment in Golden Share Mining Corporation		
40,000 (2012 – 200,000) common shares, recorded at a quoted fair value of $0.095 (2012 – $0.04) per share	$ 3,800	$ 8,000

Golden Share Mining Corporation ("Golden Share") is a publicly traded company listed on the TSX-V under the trading symbol "GSH" (see Note 3b, Exploration and Evaluation Assets – Verneuil and Larose Properties). These common shares were issued to the Company as two property option payments – 100,000 shares received on December 8, 2011 ($8,500 fair value) and 100,000 shares received on December 13, 2012 ($3,000 fair value).

Effective July 30, 2013, the Company's original 200,000 shares were replaced by Golden Share on a 5:1 basis, due to a corporate merger.

As at December 31, 2013, the investment of 40,000 common shares is carried at a total quoted fair value of $3,800 (2012 – 200,000) pre-consolidated common shares valued at $8,000). An unrealized loss on investment of $4,200 for the year ended December 31, 2013 (2012 – $3,500) is reported as other expense.

See Note 16a for information about the Company's disposal of this investment after December 31, 2013.

b) Unquoted Equity Instrument

Copper Hill Resources Inc. ("CHRI") is a privately owned mineral exploration company that owns a 100% interest in the Powderhorn Lake and Turk's Gut properties located in Newfoundland and Labrador, Canada. Prior to 2006, CHRI was a wholly owned subsidiary of the Company.

On March 22, 2012, the Company sold its 10% investment in CHRI for proceeds of $20,000 and a 2% NSR on CHRI's "Turks Gut" exploration property. CHRI may purchase at any time from the Company, half of the 2% NSR for $1 million. No value has been assigned to the 2% NSR in the Company's financial statements. The realized gain on sale of investment of $18,750 is reported as other income for the year ended December 31, 2012.

6. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	2013	2012
Amounts receivable		
Provincial sales tax refundable (HST/QST)	$ 1,806	$ 97,410
Due from related party (Note 11)	-	10,000
Total amounts receivable	1,806	107,410
Prepaid expenses	6,417	4,438
Total amounts receivable and prepaid expenses	$ 8,223	$ 111,848

Continued…

(Expressed in Canadian dollars)

7. SHARE CAPITAL

a) Authorized Share Capital
The Company's authorized share capital consists of an unlimited number of voting common shares without nominal or par value.

b) Issued Share Capital
As at December 31, 2013, the Company's fully paid issued and outstanding share capital is 79,778,229 (2012 – 77,384,369) common shares with a total stated value of $9,025,302 (2012 - $9,043,120).

A continuity of the Company's issued and outstanding common shares is disclosed in the Statements of Changes in Equity. Common shares issued to acquire E&E assets are disclosed in Note 3f.

See Note 16c for information about share capital transactions occurring after December 31, 2013.

c) Non-brokered Private Placements
During the year ended December 31, 2012, non-brokered private placements of units consisting of common shares and common share purchase warrants, were as follows:

Details	Effective # of units issued	Unit price	Gross proceeds	# of shares issued	# of investor warrants issued	Exercise price of investor warrants (term)
Flow-through:						
October 26/31, 2012 (1a)	524,800	$ 0.60	$ 314,880	2,624,000	1,312,000	$ 0.17 (2-years)
December 31, 2012 (1b)	420,000	0.60	252,000	2,100,000	1,050,000	$ 0.17 (2-years)
	944,800		566,880	4,724,000	2,362,000	
Non-flow-through:						
October 26/31, 2012 (1a)	131,200	0.60	78,720	656,000	328,000	$ 0.17 (2-years)
December 31, 2012 (1b)	105,000	0.60	63,000	525,000	262,500	$ 0.17 (2-years)
December 31, 2012	500,000	0.10	50,000	500,000	500,000	$ 0.15 (2-years)
	736,200		191,720	1,681,000	1,090,500	
Totals	1,681,000		$ 758,600	6,405,000	3,452,500	

(1a/b) Each issuance was made on the basis of 4 flow-through shares, 1 non-flow-through share and 2.5 warrants at a unit price of $0.60 each. They have been separated here to show "effective" units.

The October 2012 private placement consisted of 2 separate closings and was designated as 80% flow-through. The first December 31, 2012 private placement was designated as 80% flow-through. The second December 31, 2012 private placement was designated as 100% non-flow-through. Issue costs charged to share capital in 2012 were $76,183. Units issued pursuant to the private placements were subject to a 4-month restricted period. In 2012, 20,000 units were acquired by an advisory committee member for gross proceeds of $12,000.

The October 26, 2012 issuance of flow-through shares contained an identifiable premium paid by investors of $58,000. The December 31, 2012 issuance of flow-through shares contained an identifiable premium paid by investors of $11,000. See Notes 8 and 9 for information about the elimination of this $69,000 liability in 2013.

There were no non-brokered private placements during the year ended December 31, 2013.

See Note 16d for information about a non-brokered private placement of convertible debentures after December 31, 2013.

Continued…

(Expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

d) Debt Settlements

On June 21, 2013, the Company announced that it had agreed to settle an aggregate amount of $99,693 of debt owed to three suppliers, through the issuance of 1,993,860 units at an assigned value of $0.05 per unit (in accordance with TSX-V minimum pricing requirements). Each unit consisted of one common share plus one-half of one common share purchase warrant, for a total of 1,993,860 common shares and 996,930 warrants. Each full warrant entitles the holder to acquire one common share of the Company at a price of $0.10 for a period of 24 months from the date of closing.

On June 30, 2013, the Company recorded a reduction of trade and other payables of $99,693, an increase in equity of $60,182 (representing the fair value of the securities to be issued), and a gain on debt settlements of $39,511. The $60,182 value was determined using a trading price of $0.025 per common share (total $49,847), and an estimated fair value of warrants issued of approximately $0.0104 each (total $10,335). Weighted-average Black-Scholes assumptions used for valuing these warrants were as follows: expected dividend yield – 0%; expected volatility – 135%; risk-free interest rate – 1.13%; expected life – 2.0 years.

The TSX-V approved the debt settlement transactions on July 2, 2013. The Company issued the applicable securities on July 5, 2013, at which time it transferred $60,182 from securities to be issued to share capital.

e) Common Share Purchase Warrants

Continuity schedules of the Company's outstanding common share purchase warrants for the years ended December 31, 2012 and 2013 follow:

2012:

Expiry date(s)	Term (yrs.)	Exercise price	January 1, 2012	Issued 2012	Exercised 2012	Expired 2012	December 31, 2012
June 30, 2012	3 *	$0.20	4,091,500	-	-	(4,091,500)	-
November 2, 2012	2 **	$0.08	110,000	-	(110,000)	-	-
May 2, 2013 (E1)	2.5 *	$0.15	3,750,000	-	-	-	3,750,000
June 30, 2013 (E2)	3.5 *	$0.20	3,000,000	-	-	-	3,000,000
July 27, 2013 (E3)	3.5 *	$0.20	13,654,000	-	-	-	13,654,000
June 29, 2013	2 **	$0.30	150,000	-	-	-	150,000
Nov./Dec. 2013	2 *	$0.20	3,495,834	-	-	-	3,495,834
Nov./Dec. 2013	2 **	$0.20	651,667	-	-	-	651,667
October 2014	2 *	$0.17	-	1,640,000	-	-	1,640,000
October 2014	2 **	$0.12	-	212,100	-	-	212,100
December 31, 2014	2 *	$0.17	-	1,312,500	-	-	1,312,500
December 31, 2014	2 **	$0.12	-	183,750	-	-	183,750
December 31, 2014	2 *	$0.15	-	500,000	-	-	500,000
Total warrants			28,903,001	3,848,350	(110,000)	(4,091,500)	28,549,851
Weighted-average exercise price			$0.194	$0.160	($0.080)	($0.200)	$0.189

* = Investor warrants
** = Other warrants (i.e. issued to non-investors)

Continued…

(Expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

e) Common Share Purchase Warrants (Continued)

2013:

Expiry date(s)	Term (yrs.)	Exercise price	January 1, 2013	Issued 2013	Exercised 2013	Expired 2013	December 31, 2013
May 2, 2013 (E1)	2.5 *	$0.15	3,750,000	-	-	(3,750,000)	-
June 29, 2013	2 **	$0.30	150,000	-	-	(150,000)	-
June 30, 2013 (E2)	3.5 *	$0.20	3,000,000	-	-	(3,000,000)	-
July 27, 2013 (E3)	3.5 *	$0.20	13,654,000	-	-	(13,654,000)	-
Nov/Dec 2013	2 *	$0.20	3,495,834	-	-	(3,495,834)	-
Nov/Dec 2013	2 **	$0.20	651,667	-	-	(651,667)	-
October 2014	2 *	$0.17	1,640,000	-	-	-	1,640,000
October 2014	2 **	$0.12	212,100	-	-	-	212,100
December 31, 2014	2 *	$0.17	1,312,500	-	-	-	1,312,500
December 31, 2014	2 **	$0.12	183,750	-	-	-	183,750
December 31, 2014	2 *	$0.15	500,000	-	-	-	500,000
July 5, 2015 (Note 7d)	2 ***	$0.10	-	996,930	-	-	996,930
Total warrants			28,549,851	996,930	-	(24,701,501)	4,845,280
Weighted-average exercise price			$0.189	$0.100	$ -	$0.193	$0.149

* = Investor warrants
** = Other warrants (i.e. issued to non-investors)
*** = Issued in debt settlements

Other Warrants Issued
An aggregate of 212,100 other warrants were issued to brokers in connection with the October 2012 private placements, and assigned an issue date aggregate fair value of $8,000 ($0.038 per warrant issued) based on the Black-Scholes option-pricing model. Weighted-average Black-Scholes assumptions used for valuing these other warrants were as follows: expected dividend yield – 0%; expected volatility – 100%; risk-free interest rate – 1.07%; expected life – 2.0 years.

An aggregate of 183,750 other warrants were issued to brokers in connection with the first December 31, 2012 private placement, and assigned an issue date aggregate total fair value of $9,000 ($0.049 per warrant issued) based on the Black-Scholes option-pricing model. Weighted-average Black-Scholes assumptions used for valuing these other warrants were as follows: expected dividend yield – 0%; expected volatility – 111%; risk-free interest rate – 1.17%; expected life – 2.0 years.

Warrants issued in debt settlements in 2013 are described in Note 7d.

Warrant Exercises
On October 23, 2012, the Company received proceeds of $6,000 from the exercise of 75,000 other warrants at $0.08 per share. On November 2, 2012, the Company received proceeds of $2,800 from the exercise of 35,000 other warrants at $0.08 per share.

No warrants were exercised in 2013.

Continued…

(Expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

e) Common Share Purchase Warrants (Continued)

Investor Warrant Extensions and Acceleration

In October 2012, the Company applied for and received TSX-V approval for the six-month extension of 3,750,000 warrants from November 2, 2012 to May 2, 2013 (“E1”). In December 2012, the Company applied for and received TSX-V approval for the six-month extension of 3,000,000 warrants from December 31, 2012 to June 30, 2013 (“E2”), and 13,654,000 warrants from January 25, 2013 to July 27, 2013 (“E3”).

Expired Warrants

The aggregate issue date fair value of the 24,701,501 (2012 – 4,091,500) warrants expiring during the year ended December 31, 2013 was $718,000 (2012 – $72,000). See Note 8b for information about the related income tax effects in these financial statements.

Other Information

The accounting effects of the various warrant transactions described above are reflected in the Statements of Changes in Equity.

f) Common Share Purchase Options

Under the Company’s stock option plan, common share purchase options may be granted to employees for up to 10% of the issued and outstanding common shares. The exercise price of these options is not less than the Company’s closing market price on the day prior to the grant of the options less the applicable discount permitted by the TSX-V, and will not otherwise be less than $0.10 per share. The maximum exercise period for a granted option is 5 years.

All of the Company’s outstanding options have a 5-year term and vested at their respective grant dates.

Continuity of Options for 2012

A continuity schedule of the Company’s outstanding and exercisable common share purchase options for the years ended December 31, 2012 and 2013 is as follows:

2012:

Expiry date	Exercise price	January 1, 2012	Granted 2012	Exercised 2012	Expired 2012	December 31, 2012
January 26, 2012	$0.13	150,000	-	-	(150,000)	-
January 8, 2013	$0.135	50,000	-	-	-	50,000
April 9, 2013	$0.16	550,000	-	-	-	550,000
September 12, 2013	$0.115	100,000	-	-	-	100,000
February 4, 2015	$0.11	650,000	-	-	-	650,000
October 6, 2015	$0.125	1,200,000	-	-	-	1,200,000
November 15, 2015	$0.17	700,000	-	-	-	700,000
May 17, 2016	$0.24	300,000	-	-	-	300,000
September 12, 2016	$0.17	1,675,000	-	-	-	1,675,000
December 8, 2016	$0.20	1,675,000	-	-	(200,000)	1,475,000
February 9, 2017	$0.175	-	150,000	-	-	150,000
Total options		7,050,000	150,000	-	(350,000)	6,850,000
Weighted-average exercise price		$0.164	$0.170	$ -	($0.172)	$0.164

Continued…

(Expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

f) Common Share Purchase Options (Continued)

2013:

Expiry date	Exercise price	January 1, 2013	Granted 2013	Exercised 2013	Expired 2013	December 31, 2013
January 8, 2013	$0.135	50,000	-	-	(50,000)	-
April 9, 2013	$0.16	550,000	-	-	(550,000)	-
September 12, 2013	$0.115	100,000	-	-	(100,000)	-
February 4, 2015	$0.11	650,000	-	-	-	650,000
October 6, 2015	$0.125	1,200,000	-	-	(200,000)	1,000,000
November 15, 2015	$0.17	700,000	-	-	-	700,000
May 17, 2016	$0.24	300,000	-	-	-	300,000
September 12, 2016	$0.17	1,675,000	-	-	(150,000)	1,525,000
December 8, 2016	$0.20	1,475,000	-	-	(100,000)	1,375,000
February 9, 2017	$0.175	150,000	-	-	-	150,000
February 7, 2018	$0.12	-	50,000	-	-	50,000
May 1, 2018	$0.10	-	900,000	-	-	900,000
Total options		6,850,000	950,000	-	(1,150,000)	6,650,000
Weighted-average exercise price		$0.164	$0.101	$ -	($0.154)	$0.157

Options Granted and Share-based Compensation Expense

On February 9, 2012, the Company granted 150,000 options to a consultant. The new options, which vested immediately, have a five-year term and an exercise price of $0.175 each.

On February 7, 2013, the Company granted 50,000 options to an officer. The new options, which vested immediately, have a five-year term and an exercise price of $0.12 each. On May 1, 2013, the Company granted an aggregate total of 900,000 options to directors, officers and a consultant. These options, which vested immediately, have a five-year term and an exercise price of at $0.10 each.

Annual share-based compensation expense for 2013 of $17,000 (2012 – $10,000) was recorded based on the estimated fair value of options granted, as determined using the Black-Scholes option-pricing model. The assumptions used and the valuation results were as follows:

Grant Date	February 7, 2013	May 1, 2013	Total 2013	February 9, 2012
Assumptions used				
# of options granted	50,000	900,000	950,000	150,000
Expected dividend yield	0%	0%		0%
Expected volatility based on historical share prices	143%	146%		150%
Risk-free interest rate	1.5%	1.2%		1.37%
Expected life in years	5.0	5.0		5.0
Exercise price	$0.12	$0.10		$0.175
Valuation results				
Grant date fair value/option	$0.04	$0.017	$0.018	$0.067
Compensation expense	$2,000	$15,000	$17,000	$10,000

See Note 11 for a breakdown of compensation expense by employee group.

Continued…

7. SHARE CAPITAL (Continued)

f) Common Share Purchase Options (Continued)

Options Exercised

No options were exercised in either 2012 or 2013.

Options Expired

On January 26, 2012, 150,000 vested options expired unexercised. The grant date fair value of these options was $14,857. On May 28, 2012, 200,000 vested options expired unexercised due to the resignation of a consultant. The grant date fair value of these options was $32,478.

On January 8, 2013, 50,000 options expired unexercised. The grant date fair value of these options was $5,000. On April 9, 2013, an aggregate total of 550,000 options expired unexercised. The grant date fair value of these options was $45,833. On September 12, 2013, 100,000 options expired unexercised. The grant date fair value of these options was $5,000. On July 29, 2013, 450,000 options expired unexercised due to the resignation of a director. The aggregate grant date fair value of these options was $54,986.

The aggregate grant date fair value of all options expiring in 2013 was $110,819 (2012 – $47,335).

Options Outstanding/Exercisable

The 6,650,000 (2012 – 6,850,000) options outstanding and exercisable as at December 31, 2013 have a weighted-average remaining contractual life of 2.6 years (2012 – 3.1 years), and represent approximately 8.3% (2012 – 8.9%) of the Company's outstanding common shares.

Other Information

The accounting effects of the various stock option transactions described above, are reflected in the Statements of Changes in Equity.

See Note 16c for information about the resignation of three of the Company's directors after December 31, 2013 and the related potential effect on outstanding options.

g) Diluted Loss Per Share

Loss per share is calculated using the basic and diluted weighted-average number of common shares outstanding during the year ended December 31, 2013, which was 78,674,509 (2012 – 71,246,178). The determination of the weighted-average number of shares outstanding for the calculation of diluted loss per share does not include the potential effect of 4,845,280 (2012 – 28,549,851) outstanding warrants and 6,650,000 (2012 – 6,850,000) outstanding options, as they are anti-dilutive.

Continued…

(Expressed in Canadian dollars)

8. INCOME TAXES

The Company recognizes deferred tax assets in respect of deductible temporary differences, which includes unused tax losses and other tax deductions/credits but only to the extent that it is probable that future taxable income will be available against which they can be utilized. The Company does not presently satisfy this recoverability test; accordingly, no net deferred tax asset has been recorded.

There are no current taxes payable or recoverable for either 2012 or 2013.

a) Deferred Tax Provision

The deferred tax provision for the years ended December 31, 2013 and 2012 consists of the following amounts:

	2013	2012
Loss before income taxes	$ (1,437,513)	$ (400,763)
Statutory income tax rate for year	26.8%	26.8%
Expected deferred tax (recovery) for year	$ (385,000)	$ (107,000)
Adjustments		
Share-based compensation	5,000	3,000
Renunciation of exploration expenditures	2,000	195,000
Indemnification accrual, portion not deductible for tax	27,000	-
Other, net	17,000	1,400
Change in expected tax rates, excluding effect on unrecognized deferred tax assets	-	33,600
Deferred tax assets not recognized (recognized) for accounting purposes	334,000	(106,000)
Tax benefit of capital losses applied (Note 8b)	(96,000)	-
Flow-through share premium adjustment (Note 9)	(69,000)	-
Deferred tax (recovery) for year	$ (165,000)	$ 20,000

b) Deferred Tax Liability

A continuity of the Company's net deferred tax liability for the years ended December 31, 2013 and 2012 follows:

	2013	2012
Net deferred tax (liability), beginning of year	$ -	$ -
Per Statements of Loss and Comprehensive Loss		
Deferred income tax recovery (expense) for year	165,000	(20,000)
Flow-through share premium adjustment included therein	(69,000)	-
Per Statements of Changes in Equity		
Deferred tax charge – expired warrants (Note 8a)	(96,000)	-
Deferred tax benefit – issue costs	-	20,000
	-	-
Net deferred tax (liability), end of year	$ -	$ -

The $718,000 of warrants expiring in 2013 (see Note 7e) produced a $718,000 capital gain for income tax purposes. The Company plans to utilize capital loss carry-forwards of equal amount in its 2013 corporate income tax return. For the year-ended December 31, 2013, this has resulted in a $96,000 deferred tax charge in equity and an offsetting $96,000 deferred tax recovery in income.

Continued…

(Expressed in Canadian dollars)

8. INCOME TAXES (Continued)

c) Unrecognized Deferred Tax Asset

The composition of the Company's unrecognized deferred tax asset as at December 31, 2013 and 2012 is as follows:

	2013	2012
Non-capital loss carry-forwards	$ 223,000	$ 202,000
Capital loss carry-forwards	29,000	125,000
Share issue costs	28,000	45,000
Other tax pools ("CEC" and "UCC")	102,000	21,000
	382,000	393,000
Exploration and evaluation assets		
Deferred tax before effect of write-offs	(797,000)	(857,000)
Write-offs of E&E assets of $3,635,489 in 2011 and 704,803 in 2013 (Note 3)	1,163,000	974,000
	366,000	117,000
Total unrecognized deferred tax asset	$ 748,000	$ 510,000
Expected future tax rate applied above	26.8%	26.8%

d) Deductions Available for Income Tax Purposes

As at December 31, 2013, the Company has the following deductions available to reduce future taxable income:

Loss carry-forwards	
Non-capital losses	$ 833,000
Capital losses	214,000
Share issue costs	106,000
Other tax pools ("CEC" and "UCC")	381,000
Canadian development expense ("CDE")	901,000
Canadian exploration expenditures ("CEE")	2,169,000

The non-capital loss carry-forwards of $833,000 expire as follows: 2014 – $156,000; 2015 – $33,000; 2026 – $54,000; 2027 – $85,000; 2028 – $66,000; 2029 – $77,000; 2030 – $55,000; 2031 – $143,000; 2032 – $36,000 and 2033 – $128,000.

The capital losses may only be utilized for tax purposes against capital gains.

Continued…

(Expressed in Canadian dollars)

9. PROVISION FOR INDEMNIFICATION OF FLOW-THROUGH SUBSCRIBERS

As at December 31, 2012, the Company was committed to incur $566,880 in qualifying Canadian exploration expenditures prior to January 1, 2014, pursuant to two 2012 private placements for which flow-through share proceeds had been received by the Company (see Note 7c) and then renounced to Ontario and Quebec subscribers effective December 31, 2012.

The Company incurred actual qualifying expenditures of $6,444 in 2012 and $7,608 in 2013, leaving a shortfall of $552,828 as at December 31, 2013. Accordingly, effective December 31, 2013, the Company has recorded (in other expense and current liabilities) a $400,000 provision for the estimated cost to indemnify flow-through share subscribers for their expected personal income tax reassessments by Canada Revenue Agency and Revenu Québec, attributable to each subscriber's proportionate share of the shortfall. The indemnifications are provided for in the underlying subscription agreements for the private placements. The governmental audit/reassessment process may be lengthy; therefore, it may be several months or longer before the Company's final liability is exigible.

The Company has made the following assumptions in estimating its subscriber indemnification provision:

- Ontario subscribers have a combined personal income tax rate of 47.97% and are eligible for both the federal 15% and provincial 5% investment tax credits;
- Quebec subscribers have a combined personal income tax rate of 48.22% and are eligible for the federal 15% investment tax credit and the 150% CEE "super-allowance";
- Of the $552,828 shortfall, $73,329 applies to Ontario subscribers and $479,499 applies to Quebec subscribers; and
- Subscribers will be assessed one year's interest on reassessed amounts.

As at December 31, 2013, the Company has also accrued in trade and other payables (see Note 10), the estimated Federal Part XII.6 tax and similar Quebec tax for 2013 and prior years.

As at December 31, 2012, the Company had a $69,000 flow-through share premium liability (see Note 7c). Of this amount, $3,800 was transferred (on a 2013 interim basis) to the deferred tax provision in recognition of the $14,052 of qualifying exploration expenditures incurred. The $65,200 balance was transferred to the deferred tax provision effective December 31, 2013, in recognition of the Company's indemnification accrual, which effectively converted the remaining 2012 flow-through expenditure commitment into an equivalent subscriber indemnification liability.

Additional contingent liabilities with respect to the Company's flow-through share commitments for 2011 and prior years are discussed in Note 12a.

10. TRADE AND OTHER PAYABLES

	2013	2012
Trade payables	$ 59,269	$ 444,184
Accrued expenses	18,460	30,964
Accrued Part XII.6 tax and related amounts (Note 9)	100,627	39,073
Due to related parties (Note 11b)	88,681	69,306
	$ 267,037	$ 583,527

Continued…

(Expressed in Canadian dollars)

11. RELATED PARTY TRANSACTIONS

The Company considers its related parties to consist of: i) the Company's key management personnel (namely officers and directors) and those companies subject to their control or significant influence; and ii) advisory committee members and consultants providing services to the Company on a basis similar to employees.

a) Summary of Related Party Transactions
Details of the Company's transactions with related parties for the years ended December 31, 2012 and 2013, are as follows:

		2013		2012
Statements of Financial Position				
Evaluation and exploration assets – capitalized during year				
Legal fees – officer's law firm, capitalized as acquisition costs	$	2,590	$	12,675
Geology fees – advisory committee members, capitalized to deferred exploration expenditures		2,000		20,235
	$	4,590	$	32,910
Statements of Equity				
Legal fees – officer's law firm, included in issue costs	$	-	$	20,605
Statements of Loss and Comprehensive Loss				
Management fees – officers' companies	$	130,250	$	160,733
Office and administration				
Website development fees – officer's company		-		3,995
Rent – officers' and directors' companies		12,952		22,080
Professional and regulatory fees – fees from officer's law firm		53,409		74,176
Investigation of new properties – advisory committee members		-		29,425
		196,611		290,409
Share-based compensation				
Common share purchase options granted to employees				
Officers		5,333		-
Non-executive directors		7,917		-
Advisory committee members and consultants		3,750		10,000
Total (Note 7f)		17,000		10,000
Total expense	$	213,611	$	300,409

The Company's officers receive fees through their companies pursuant to fee-for-service arrangements in lieu of salaries. The Company's Board of Directors approves these fees and the share-based compensation. Common shares and common share purchase warrants acquired by employees during the year on the same terms as other investors, are described in Note 7c.

b) Related Party Balances
Amounts receivable as at December 31, 2012 (see Note 6) includes $10,000 due from the President's company. This amount, which was non-interest bearing and without fixed terms of repayment, was repaid in 2013.

As at December 31, 2013, amounts payable to related parties of $88,681 (2012 – $69,306) represents fees owed/accrued to officers and their companies/law firm and also to advisory committee members. These liabilities are unsecured, non-interest bearing and due within 30 days.

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12. COMMITMENTS AND CONTINGENCIES

a) Flow-through Shares

The Company believes that it has incurred sufficient qualifying expenditures to satisfy its December 31, 2011 and prior flow-through share commitments in respect of Ontario and Quebec subscribers, though such expenditures and the Company's related tax returns are subject to potential audit and reassessment by Canada Revenue Agency and Revenu Québec. The Company has agreed to indemnify the subscribers of its flow-through shares for tax-related amounts that become payable by them, if the Company fails to meet it expenditure commitments.

The Company's original December 31, 2012 flow-through share commitment is discussed in Note 9.

b) Environmental Contingencies

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

13. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of components of shareholders' equity. 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 mineral properties. 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 properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during 2013 or 2012. The Company is not subject to externally imposed capital requirements.

Continued…

(Expressed in Canadian dollars)

14. FINANCIAL RISK FACTORS

a) Financial Instruments

The Company's financial instruments consist of financial assets and liabilities as outlined below and as further explained in Note 2d.

	2013	2012
Statements of Financial Position		
Financial assets		
FVTPL – Held for trading		
Investment (Note 5)	$ 3,800	$ 8,000
Loans and receivables		
Amounts receivable (Note 6)	1,806	107,410
Cash	6,733	500,124
	8,539	607,534
Total financial assets	$ 12,339	$ 615,534
Financial liabilities		
Other financial liabilities		
Provision for indemnification of subscribers (Note 9)	$ 400 000	$ -
Trade and other payables (Note 10)	267,037	583,527
Total financial liabilities	667,037	583,527
(Deficiency) excess of financial assets over financial liabilities	$ (654,698)	$ 32,007

Statements of Cash Flows

As at December 31, 2011, the Company had cash of $508,105 and cash equivalents of $500,000. As at December 31, 2012 and 2013, the Company had cash of $500,124 and $6,733, respectively, but no cash equivalents.

Carrying Values

As at December 31, 2013 and 2012, the carrying values and fair values of the Company's financial instruments are approximately the same because of the limited term of these investments. In addition, the Company's financial instruments that are carried at fair value consist of a FVTPL investment, classified as "Level 1", within the fair value heirarchy.

b) Financial Risks

Risk exposures and the impact on the Company's financial instruments are summarized below.

Credit Risk

The Company's financial assets are exposed to some credit risk. The Company has no significant concentration of credit risk arising from operations. The Company does not use derivatives to manage credit risk.

Continued…

14. FINANCIAL RISK FACTORS (Continued)

b) Financial Risks (Continued)

Liquidity Risk

The Company's approach to managing liquidity risk is to try to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2013, the Company has a substantial deficiency of financial liabilities over financial assets of $654,698; accordingly, liquidity risk is assessed as critical.

As at December 31, 2013, the Company's trade and other payables have contractual maturities of less than 30 days and are subject to normal trade terms. The Company's provision for indemnification of flow-through subscribers is recorded as a current liability though there is uncertainty regarding the actual amount and timing of the realization of this liability. The Company may potentially reduce its liquidity risk through additional private placements and debt settlements with creditors.

Market Risk

The Company's market risk has three components – interest rate risk, foreign currency risk and price risk.

(i) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to periodically invest temporary cash surpluses in guaranteed investment certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank.

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar and all purchases are transacted in Canadian dollars. The Company has no foreign operations and thus has no foreign exchange risk derived from either currency conversions or from holding foreign currencies. The Company does not speculate in the foreign currency market nor does it have any need to acquire foreign currency hedges.

(iii) Price risk

The Company is exposed to some price risk with respect to commodity prices; however, this is limited since the Company is not a producing entity. The Company closely monitors commodity prices to determine its appropriate course of action.

c) Sensitivity Analysis

Management believes that sensitivity analysis on the Company's financial instruments is presently unnecessary, since any changes in interest rates and commodity prices are unlikely to have a material effect on the Company's financial instruments.

15. SEGMENTED INFORMATION

The Company's operations comprise a single operating segment engaged in the acquisition, exploration and development of mineral properties in Canada.

Continued…

16. EVENTS OCCURRING AFTER THE REPORTING PERIOD

a) Held-For-Trading Investment
On March 14, 2014, the Company sold its investment in Golden Share (see Note 5) for net proceeds of $2,102, at which time it recorded a final loss on disposal of investment of $1,698.

b) Property Option Termination
On April 2, 2014, Golden Share informed the Company that it was terminating the Larose option (see Note 3b) that the Company had granted to it.

c) Change in Directors
On April 4, 2014, the Company announced the resignation of three existing directors and the appointment of three new directors. The outgoing directors hold an aggregate total of 1,675,000 of the Company's common share purchase options. These options, which are presently out-of-the-money, will expire on July 4, 2014 and have an aggregate grant date fair value of $171,122.

The Company has agreed to conditionally issue each new director 250,000 common shares of the Company, for a total of 750,000 common shares. The issuance of these common shares is subject to the approval of the TSX-V. Compensation expense will be recorded in 2014 based on the aggregate, issue date, fair value of the common shares.

d) Private Placement of Convertible Debentures
On April 15, 2014, the Company commenced a private placement for a maximum of $150,000 of 10% unsecured convertible debentures (the "Debentures"). The Debentures bear interest at the rate of 10% per annum which interest will accrue and be paid on the June 30, 2015 maturity date. The Debentures will be issued with principal in denominations of $1,000 and multiples thereof.

The Debentures (plus any unpaid and accrued interest) are convertible, at the option of the holder, into units (each a "Unit") at a conversion price (the "Conversion Price") of $0.01 per Unit over the term of the Debenture, subject to the TSX-V minimum pricing requirement of $0.05 for the first 12 months and $0.10 thereafter until maturity. In the event of a share consolidation by the Company, the Conversion Price will be adjusted proportionately, though it will still be subject to the same $0.05 and $0.10 TSX-V minimum pricing requirements on a post-consolidation basis.

Each Unit will consist of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire one common share of the Company at the Conversion Price for a period of 36 months from the date of issuance of the warrant.

Assuming that: i) the Company closes $150,000 of the Debentures, ii) this amount is subsequently converted by the holders at a $0.05 conversion price, and iii) there is no share consolidation, this would result in the issuance of 3,000,000 Units, representing the equivalent of 3,000,000 common shares and 3,000,000 warrants (or a combined potential 6,000,000 common shares if all the warrants were subsequently exercised).

The TSX-V conditionally approved this transaction on April 16, 2014. The TSX-V's final approval is subject to the Company meeting its documentation filing requirements on or before May 19, 2014. The TSX-V, in its discretion, may refuse to provide final acceptance in regard to the subscription of one or more subscribers.

As at April 30, 2014, the Company had closed a total of $47,500 of the Debentures, including $10,000 with a related party.