Midlands Minerals

TSX-V:MEX

Midlands Minerals Corporation

Consolidated Financial Statements

As at and for the years ended

December 31, 2013 and 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Midlands Minerals Corporation, or the Company, have been prepared by management in accordance with International Financial Reporting Standards and contain estimates based on management's judgement. Management maintains an appropriate system of internal controls to provide assurance that transactions are authorized, assets safeguarded and proper records maintained.

The Audit Committee of the Board of Directors ("the Board") has reviewed with the Company's independent auditor the scope and results of the annual audit and the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditor, Schwartz Levitsky Feldman LLP is appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards and their report follows.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the consolidated financial statements.

As the Company is a Venture Issuer (as defined under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), Midlands Minerals Corporation and management are not required to include representations relating to the establishment and/or maintenance of disclosure controls and procedures ("DC&P) and/or ICFR, as defined in NI 52-109.

"Craig Pearman"
President and Chief Executive Officer
April 30, 2014

"Stephen Gledhill"
Chief Financial Officer
April 30, 2014

Schwartz Levitsky Feldman llp
CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
TORONTO • MONTREAL

SLF

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Midlands Minerals Corporation

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

SLF

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Note 2 in the consolidated financial statements which indicates that the Company has an accumulated deficit of $28,632,244 as at December 31, 2013 and the Company's future success is dependent upon its ability to raise sufficient future financing to meet its work commitments and planned exploration expenditures for its projects. These conditions, along with other matters as set forth in Note 2 indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Schwartz Levitsky Feldman llp

Toronto, Ontario
April 30, 2014

Chartered Accountants
Licensed Public Accountants

Midlands Minerals Corporation
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at	**December 31, 2013**	December 31, 2012
	$	$
Assets		
Current assets		
Cash *(note 8)*	**3,216,641**	1,075,594
Short-term investment *(note 9)*	**60,000**	60,000
Due from related parties *(note 14)*	**100,000**	-
Other receivables and prepaid expenses *(note 10)*	**23,738**	36,600
Available-for-sale investments *(note 11)*	**20,800**	45,500
Total current assets	**3,421,179**	1,217,694
Non-current assets		
Property and equipment *(note 17)*	**22,177**	27,722
Total non-current assets	**22,177**	27,722
Total assets	**3,443,356**	1,245,416
Liabilities		
Current liabilities		
Trade payables and accrued liabilities *(note 12)*	**76,742**	75,725
Due to related parties *(note 14)*	**14,162**	19,453
Total current liabilities	**90,904**	95,178
Shareholders' equity		
Share capital *(note 13)*	**18,199,531**	18,199,531
Reserve for warrants *(note 13)*	**-**	2,768,502
Contributed surplus *(note 13)*	**13,741,341**	10,944,939
Available-for-sale reserve *(note 11)*	**43,825**	65,438
Deficit	**(28,632,244)**	(30,864,297)
Equity attributable to owners of parent company	**3,352,452**	1,114,113
Non-controlling interests *(note 15)*	**-**	36,125
Total shareholders' equity	**3,352,452**	1,150,238
Total liabilities and shareholders' equity	**3,443,356**	1,245,416

Going concern *(note 2)*
Related-party transactions and balances *(note 14)*
Subsequent events *(note 21)*

Approved by the Board on April 30, 2014:

"Nick Tintor"
Director

"James Garcelon"
Director

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

Midlands Minerals Corporation
Consolidated Statements of Profit (Loss)

(Expressed in Canadian dollars)

	Years ended	
	December 31, 2013	December 31, 2012
	$	$
Operating expenses		
Depreciation	**5,545**	3,080
Exploration and evaluation expenditures *(note 16)*	**586,666**	1,869,193
Office and administrative expenses	**256,402**	276,926
Professional fees	**111,114**	405,276
Salaries and benefits	**403,757**	547,002
Share-based compensation *(note 13)*	**27,900**	124,850
Shareholder information	**45,872**	115,979
Total operating expenses	**1,437,256**	3,342,306
Loss before taxes and undernoted items	**(1,437,256)**	(3,342,306)
Gain on sale of subsidiary *(note 15)*	**3,537,212**	-
Gain on sale of equipment	**1,324**	-
Other income	**17,609**	27,820
Foreign exchange gain (loss)	**116,251**	(57,204)
Profit (loss) before taxes	**2,235,140**	(3,371,690)
Deferred income taxes *(note 20)*	**(3,088)**	(15,638)
Profit (loss) attributable to owners of parent company	**2,232,052**	(3,387,328)
Basic and fully-diluted earnings (loss) per common share	**0.01**	(0.02)
Weighted average number of common shares outstanding (000's)	**194,228**	194,228

Midlands Minerals Corporation
Consolidated Statements of Comprehensive Gain/Loss
(Expressed in Canadian dollars, except loss per common share)

	Years ended	
	December 31, 2013	December 31, 2012
	$	$
Gain (loss) attributable to owners of parent company	**2,232,052**	(3,387,328)
Other comprehensive loss:		
Unrealized loss on available-for-sale investments	**(24,701)**	(125,100)
Income tax recovery	**3,088**	15,638
Other comprehensive loss, net of income taxes	**(21,613)**	(109,462)
Total comprehensive gain (loss) attributable to owners of parent company	**2,210,439**	(3,496,790)

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

Midlands Minerals Corporation
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Share Capital		Reserves					
	Number of shares	Amount	Warrants	Contributed surplus	Available-for-sale	Deficit	Non-controlling interests	Total
		$	$	$	$	$	$	$
Balance at January 1, 2012	**194,228,231**	**18,199,531**	**5,347,636**	**8,240,955**	**174,900**	**(27,476,969)**	**36,125**	**4,522,178**
Reserve transferred on expiry of warrants	-	-	(2,579,134)	2,579,134	-	-	-	-
Share-based compensation	-	-	-	124,850	-	-	-	124,850
Unrealized loss on available-for-sale investments	-	-	-	-	(109,462)	-	-	(109,462)
Net loss for the year	-	-	-	-	-	(3,387,328)	-	(3,387,328)
Balance at December 31, 2012	**194,228,231**	**18,199,531**	**2,768,502**	**10,944,939**	**65,438**	**(30,864,297)**	**36,125**	**1,150,238**
Reserve transferred on expiry of warrants	-	-	(2,768,502)	2,768,502	-	-	-	-
Share-based compensation	-	-	-	27,900	-	-	-	27,900
Unrealized loss on available-for-sale investments	-	-	-	-	(21,613)	-	-	(21,613)
Elimination of non-controlling interest on sale of subsidiary (*note 15)*	-	-	-	-	-	-	(36,125)	(36,125)
Net profit for the year	-	-	-	-	-	2,232,052	-	2,232,052
Balance at December 31, 2013	**194,228,231**	**18,199,531**	**-**	**13,741,341**	**43,825**	**(28,632,245)**	**-**	**3,352,452**

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

Midlands Minerals Corporation
Consolidated Statements of Cash Flow

(Expressed in Canadian dollars)

	Years ended	
	December 31, 2013	December 31, 2012
	$	$
Operating activities		
Net profit (loss)	**2,232,052**	(3,387,328)
Adjustments to non-cash items:		
Depreciation	**5,545**	3,080
Deferred income taxes	**3,088**	15,638
Gain on sale of equipment	**(1,324)**	-
Gain on sale of subsidiary	**(3,537,212)**	-
Share-based compensation	**27,900**	124,850
Net change in non-cash working capital items:		
Other receivables and prepaid expenses	**12,862**	341,307
Trade payables and accrued liabilities	**1,017**	(347,298)
Cash used in operating activities	**(1,256,072)**	(3,249,751)
Financing activities		
Advances from (repayments to) related parties	**(105,291)**	-
Cash provided from (used in) investing activities	**(105,291)**	-
Investing activities		
Proceeds from sale of subsidiary	**3,513,427**	-
Proceeds from sale of equipment	**1,324**	-
Purchase of property and equipment	**-**	(30,802)
Sale (purchase) of short-term investments	**-**	(30,000)
Cash provided from (used in) investing activities	**3,514,751**	(60,802)
Impact of foreign exchange translation	**(12,341)**	-
Net increase (decrease) in cash	**2,141,047**	(3,310,553)
Cash at beginning of year	**1,075,594**	4,386,147
Cash at end of year	**3,216,641**	1,075,594

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

1. Company description and nature of operations

Midlands Minerals Corporation ("Midlands" or the "Company") and its subsidiaries, Midlands Minerals Ghana Limited, Midenka Resources Limited, Midlands Minerals Tanzania Limited, Manonga Minerals Limited, Harbour Capital Corporation, and its 75%-owned subsidiary Itilima Mining Company Limited, is an exploration-stage, publicly-traded Company incorporated in Ontario, Canada with the registered office address of 120 Adelaide Street West, Suite 2400, Toronto, Ontario, M5H 1T1.

Midlands is a junior prospecting and natural resource company focused on growing a mineral asset inventory to build shareholder value. The Company employs responsible exploration methods in politically stable, low-risk and mining-friendly countries. As the Company's assets are located outside North America, they are subject to the risk of foreign investment, including additional local taxation and royalties, renegotiation of contracts, possible expropriation, currency exchange fluctuations and political uncertainty.

On June 19, 2013 the Company entered into a share purchase agreement together with its wholly-owned subsidiary, Harbour Capital Corporation and sold, via sale of shares, all of its interest in Akroma Gold Company Limited to its partner, Sian Goldfields Limited. At a shareholders' meeting held on July 30, 2013, approval for the sale was received and subsequently the transaction closed on August 19, 2013.

2. Going concern

These consolidated financial statements (the "Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business, as they come due for the foreseeable future. The Company is in the process of exploring and developing its mineral properties and has not yet realized profitable operations. The Company requires additional financing for its working capital and for the costs of exploration and development of its mineral properties. Due to continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. The Company will continue to seek additional forms of debt or equity financing, however, there is no assurance that it will be successful in doing so or that funds will be available on terms acceptable to the Company or at all. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. Further, in order for the Company to carry out its exploration and mining activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed. These material uncertainties may cast significant doubt upon the entity's ability to continue as a going concern. Accordingly, the Consolidated Financial Statements do not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts that may differ from those shown in the accompanying Consolidated Financial Statements.

At December 31, 2013, the Company had working capital of $3,330,275 (2012 – $1,122,516), a cash position of $3,216,641 (2012 – $1,075,594) and an accumulated deficit of $28,632,244 (2012 – $30,864,297) and for the year ended December 31, 2013, cash used in operating activities of $1,256,072 (2012 - $3,249,751) which place considerable concern on the Company's ability to discharge its ongoing obligations. In order to meet its work commitments and planned exploration expenditures for its projects as well as further working capital requirements, it may be required to complete further financings (debt or equity). Management continues to work toward completing additional financings and/or sale of assets. In August 2013, the Company completed the sale of one of its subsidiaries for gross proceeds of $3,513,427 (note 15).

The reader is also directed to review ***note 5*** – ***Capital management***.

3. Basis of preparation and significant accounting policies

Basis of preparation

3.1 Statement of compliance

The Consolidated Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee with an effective date of December 31, 2013.

The Consolidated Financial Statements were approved by the Board on April 30, 2014.

3.2 Basis of presentation

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in note 6. The Consolidated Financial Statements are presented in Canadian dollars, the Company's functional and presentation currency.

3.3 Basis of consolidation

The Consolidated Financial Statements include the financial statements of the Company and its wholly-owned subsidiaries; Midlands Minerals Ghana Limited, Midenka Resources Limited, Midlands Minerals Tanzania Limited, Manonga Minerals Limited, Harbour Capital Corporation, and its 75%-owned subsidiary Itilima Mining Company Limited, which the Company controls. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated statements of operations also include losses of the Company's disposed subsidiary (note 15), up to the date of disposal, being August 19, 2013.

All inter-Company transactions, balances, income and expenses are eliminated on consolidation.

Significant accounting policies

3.4 Exploration and evaluation expenditures

All exploration and evaluation expenditures, the elements of which include: Acquisition of rights to explore; studies of all nature (topographical, geological, geochemical and geophysical), exploratory drilling, coring, sampling, trenching, and in general, all activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property and equipment. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

3.5 Property and equipment ("P&E")

P&E is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of P&E consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of P&E, less their estimated residual value, using the declining-balance method or unit-of-production method over the following expected useful lives:

• Computer equipment and software	20%
• Office equipment	20%
• Field equipment	20%
• Mineral properties	units of production

An item of P&E is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of income (loss).

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for P&E and any changes arising from the assessment are applied by the Company prospectively.

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

3.6 Decommissioning, restoration and similar liabilities (asset retirement obligations)

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and P&E, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the declining-balance method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

The Company does not currently have any asset retirement obligations.

3.7 Share-based payments

Share-based payment transactions

The Company has a share-based compensation plan (the "Plan) whereby participants (including directors, senior executives, employees and consultants) may receive a portion of their remuneration or fees in the form of share-based payment transactions. The participants render their services in consideration for equity instruments ("equity-settled transactions").

If the Company cannot estimate reliably the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

3.8 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income/loss.
Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.9 Gain (loss) per share

The basic gain (loss) per share is computed by dividing the net gain (loss) by the weighted average number of common shares outstanding during the period. The diluted gain (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share-purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. During the years ended December 31, 2013 and 2012 all the outstanding stock options and warrants were antidilutive and were not included.

3.10 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair-value-through-profit-or-loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the statement of loss. The Company’s cash and short-term investments are classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company’s other receivables (excluding HST recoverable) and due from related parties are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss), net of applicable taxes, except for losses in value that are considered other than temporary. The Company’s marketable securities are classified as available-for-sale investments.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Company maximizes the use of observable inputs. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The Company policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3.11 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a

method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables are classified as other-financial-liabilities.
Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of loss. At December 31, 2013, the Company has not classified any financial liabilities as FVTPL.

3.12 Impairment of financial assets

At each date of the statement of financial position, the Company assesses whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in the statement of comprehensive income/loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income/loss.

In relation to other receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from available-for-sale reserves to profit or loss. Reversals in previously impaired amounts in respect of equity instruments classified as available-for-sale continue to be recognized in the statement of comprehensive income/loss.

3.13 Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income/loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

3.14 Foreign currency transactions

Functional and presentation currency

Items included in the Consolidated Financial Statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

3.15 Significant accounting judgments and estimates

The preparation of these Consolidated Financial Statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations; impairment testing of property and equipment, valuation of deferred income tax amounts, impairment testing and the calculation of share-based payments. The most significant judgements relate to recognition of deferred tax assets and liabilities, determination of the commencement of commercial production and the determination of the economic viability of a project.

3.16 Cash

Cash in the statement of financial position comprise cash at banks and on hand.

3.17 Investment

Short-term investment

Short-term investment consists of an investment certificate with a maturity date greater than three months but less than one year.

Available-for-sale-investments

Available-for-sale-investments consist of marketable securities or shares in other resource exploration or mining companies.

3.18 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense and is applied as an offset to the specific obligation on the statement of financial position.

3.19 Related-party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related-party transaction when there is a transfer of resources or obligations between the related parties. Related-party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

4. New accounting standards and interpretations

The IASB issued a number of new and revised International Accounting Standards and IFRS amendments and related interpretations which are effective for the Company's financial year beginning on or after the date stated, with early adoption permitted. The Company has not yet early-adopted these standards but is assessing what impact the applications will have on the Consolidated Financial Statements.

- IFRS 9 *'Financial Instruments: Classification and Measurement'* – annual periods beginning on or after January 1, 2015, introduces new requirements for the classification and measurement of financial instruments.

- IAS 32 *'Financial Instruments: Presentation'* – the IASB amended this standard to address inconsistencies identified in applying some of the offsetting criteria.

- IAS 36 '*Impairment of Assets – Disclosures'* – provides for amendments to the disclosure requirements in IAS 36.

- IFRIC 21 *'Levies'* - addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37.

5. Capital management

The Company considers its capital to be its equity attributable to owners of the parent company, which is comprised of share capital, reserve accounts and deficit, which as at December 31, 2013 totaled $3,352,452 (2012 - $1,114,113). The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flow. The Company intends to raise such funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The only sources of future funds presently available to the Company are through the exercise of outstanding stock options or warrants, the sale of equity capital of the Company or the sale by the Company of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable, given the relative size of the Company.

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

6. Financial instruments

Fair value

The Company has designated its cash as FVTPL, which is measured at fair value. Other receivables and prepaids are classified for accounting purposes as loans and receivables, which are measured at amortized cost that approximates fair value. The Company's marketable securities have been classified for accounting purposes as available-for-sale, which are measured at fair value. Trade payables and accrued liabilities are classified for accounting purposes as other financial liabilities, which are measured at amortized cost, which also approximates fair value. Fair values of amounts receivable and accounts payable and accrued liabilities are determined from transaction values that were derived from observable market inputs. Fair values of other financial assets are based on Level 1 measurements and the remaining financial instruments are based on Level 2 measurements.

(Expressed in Canadian dollars)

As at December 31, 2013, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these investments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following table summarizes fair value measurements recognized in the consolidated financial statements by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurements.

	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Cash	3,216,641	-	-
Short-term investment	60,000	-	-
Accounts receivable	-	46,670	-
Due from related parties	-	100,000	-
Other receivables and prepaid expense’s	-	23,738	-
Available-for-sale investments	20,800	-	-
Trade payables and accrued liabilities	-	76,742	-
Due to related parties	-	14,162	-

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

i) Credit risk

Credit risk is the risk of loss associated with a counter-party’s inability to fulfill its payment obligations. The credit risk is attributable to various financial instruments, as noted below. The credit risk is limited to the carrying value amount carried on the statement of financial position.

a. **Cash** – Cash is held with major Canadian, Ghanaian and Tanzanian banks and investment institutions and, therefore, have minimal risk of loss. In Management’s opinion, the risk of loss is minimal with foreign banking institutions and is limited to the amount carried on the statements of financial position. Cash held with foreign banks at December 31, 2013, total $1,256 (2012 - $118,560).

b. **Other receivables and prepaid expenses** - The Company is not exposed to any significant risk. Risk of the loss of advances to employees is limited to the amount carried on the statements of financial position of $179 (2012 - $22,619).

ii) Liquidity risk

The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at December 31, 2013, the Company had working capital of

$3,330,275 (2012 – $1,122,516). In order to meet its future working capital and property exploration expenditures, the Company intends on securing further financing, as required, to ensure that those obligations are properly discharged. The Company has well over 15 months of operating capability based on current cash balances, monthly burn rate and project commitments. However, there can be no assurance that the Company will be successful, if required, in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution. If adequate financing is not available, the Company may be required to delay, reduce the scope of, or eliminate one or more exploration activities or relinquish rights to certain of its interests. Failure to obtain additional financing on a timely basis could cause the Company to forfeit some or all of its interests and reduce or terminate its operations therein.

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

a. Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term nature of its monetary assets and liabilities. Cash not required in the short term, is invested in short to mid-term guaranteed investment certificates, as appropriate.

b. Currency risk

Although the Company's operations are conducted in Canadian dollars, it has entered into contracts and/or agreements that require payment in United States dollars, Ghanaian Cedi and the Tanzanian Shilling. Management believes that foreign currency risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

c. Price risk

The Company holds the common shares of three TSXV-traded companies. The Company has classified these investments as available-for-sale and such common shares are subject to stock-market volatility. The value of these financial instruments fluctuates on a daily basis due to external market factors that are not within the control of the Company. The Company monitors the trading value of these common shares in order to ensure that the sale of any shares is made in the best interest of the Company.

7. Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a one year period:

i) The Company's investments are subject to fair value fluctuations. As at December 31, 2013, if the fair value of investments had decreased/increased by 50% with all other variables held constant, net comprehensive loss for the year ended December 31, 2013 would have been approximately $10,500 (2012 - $23,000) higher/lower. Similarly, as at December 31, 2013, reported available-for-sale-reserves would have been approximately $10,500 (2012 - $23,000) (exclusive of taxes thereon), lower/higher as a result of a 50% decrease/increase in the fair value of investments.

(Expressed in Canadian dollars)

ii) The Company's funds are kept in Canadian and US dollars at a major Canadian financial institution.

As at December 31, 2013, the Company's exposure to foreign currency balances is as follows:

As at		**December 31, 2013**	December 31, 2012
Account	**Foreign Currency**	**Exposure ($CDN)**	
Cash	US dollar	**2,120**	83,000
Cash	Ghanaian Cedi	**768**	40,000
Cash	Tanzanian Shilling	**-**	5,000
		2,888	128,000

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net loss for the period by approximately $300 (2012 - $13,000).

8. Cash

The balance at December 31, 2013, consists of $3,216,641 (2012 - $1,075,594) on deposit with major Canadian and Ghanaian banks.

9. Short-term investment

As at December 31, 2013, short-term investment consists of a guaranteed investment certificate of $60,000 (2012 - $60,000), which bears interest at rate of 0.8% per annum and has a maturity date of January 28, 2014. Subsequent to December 31, 2013, the certificate has been automatically renewed for 1 year at the same interest rate of 0.8%.

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(Expressed in Canadian dollars)

10. Other receivables and prepaid expenses

The Company's other receivables arise from the following: Harmonized sales tax ("HST") recoverable from the Canada Revenue Agency, prepaid amounts to suppliers and advances to employees. These are detailed as follows:

	December 31, 2013	December 31, 2012
	$	$
Prepaid expenses and deposits	**4,500**	17,954
HST recoverable	**17,327**	13,430
Interest receivable	**1,732**	551
Advances to employees	**179**	4,665
Total	**23,738**	36,600

11. Available-for-sale investments

Canaco Resources Inc. ("Canaco") / Orca Gold Inc. ("Orca")

The Company originally held 100,000 (December 31, 2012 – 100,000) shares of Canaco, a company traded on the TSX Venture Exchange ("TSXV"). In April 2013, Canaco rolled back its shares on a 1 for 3 basis and changed its name from Canaco Resources Inc. to Orca Gold Inc. which is trading on the TSXV under the trading symbol ORG. The Company's new holdings of this investment comprise 33,333 shares of Orca. The impact to the consolidated financial statements of this revaluation to market value resulted in a one-year decrease of $16,000 (2012 – $103,500) to the value of the investments with a corresponding decrease in available-for-sale reserve of $14,000 (2012 – $90,563), net of deferred income-tax recoveries of $2,000 (2012 - $12,937).

Tigray Resources Inc. ("Tigray")

As at December 31, 2013, the Company held 20,000 Tigray shares (2012 – 20,000) that it acquired through a spin-off transaction of Canaco, whereby it received 1 share of Tigray for every 5 shares of Canaco. Tigray shares commenced trading on the TSXV on August 31, 2011, and had a closing price of $1.00 on that day. As such, the shares were fair-valued at $20,000. On December 31, 2013, these available-for-sale investments were measured at their fair value of $2,800 (2012 – $4,000). The impact to the consolidated financial statements of this revaluation to market value resulted in a one-year decrease of $1,200 (2012 – $21,600) to the value of the investments with a corresponding decrease in the available-for-sale reserve of $1,050 (2012 – $18,899) net of deferred income-tax recoveries of $150 (2012 - $2,701).

East Africa Metals Inc. ("East Africa")

In April 2013, Canaco transferred its Tanzanian assets, cash and other assets and liabilities into East Africa Metals Inc. ("East Africa") in exchange for common shares of East Africa. The Company received 33,333 shares of East Africa, which is trading on the TSXV under the trading symbol EAM. As at December 31, 2013, these available-for sale investments have been measured at a total fair value of

(Expressed in Canadian dollars)

$4,167 (2012 – $nil). The impact to the consolidated financial statements of this revaluation to market value resulted in a one-year decrease of $7,501 (2012 – $nil) to the value of the investments with a corresponding decrease in available-for-sale reserve of $6,563 (2012 – $nil), net of deferred income-tax recoveries of $938 (2012 - $nil).

12. Trade payables and accrued liabilities

Trade payables and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and amounts payable for operating activities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade payables:

As at	**December 31, 2013**	December 31, 2012
	$	$
Less than 1 month	**28,403**	18,645
30 - 90 days	**339**	-
Over 90 days	**-**	4,197
Total trade payables	**28,742**	22,842
Accrued liabilities	**48,000**	52,883
Total	**76,742**	75,725

13. Share capital

Authorized

Authorized share capital consists of an unlimited number of common shares of which 194,228,231 (2012 – 194,228,231) are issued and outstanding.

Reserve for warrants

			Weighted-average		
Date Granted	**Type**	**Number**	**Exercise Price**	**Fair Value**	**Expiry Date**
			$	**$**	
August 29, 2011	Warrants	91,250,000	0.10	2,626,198	August 29, 2013
August 29, 2011	Agent Compensation Units	6,480,000	0.08	142,304	August 29, 2013
Balance December 31, 2012		**97,730,000**	**0.10**	**2,768,502**	
August 29, 2013	Expired	(97,730,000)	(0.10)	(2,768,502)	
Balance December 31, 2013		**-**		**-**	

(Expressed in Canadian dollars)

Contributed surplus

A continuity of the contributed surplus balances is as follows:

	$
Balance at January 1, 2012	**8,240,955**
Share based payments	124,850
Expired warrants	2,579,134
Balance December 31, 2012	**10,944,939**
Share-based payments	27,900
Expired warrants	2,768,502
Balance December 31, 2013	**13,741,341**

The Company has a stock option plan for the purchase of common shares for its directors, officers, employees and other service providers. The aggregate number of common shares reserved for issuance under the stock option plan is a maximum of 10% of the issued and outstanding common shares of the Company. No one person shall be granted options representing more than 5% of the issued and outstanding common shares of the Company. Option grants to persons providing investor relations services may not exceed 2% of the issued and outstanding share capital and must vest over a 12-month period with no more than 25% of the options vesting in any quarter. The options are non-assignable and non-transferable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the Board and shall be determined on the basis of the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

As at December 31, 2013, the Company had 6,972,823 options available for issuance (2012 – 6,972,823). A continuity of the outstanding options to purchase common shares is as follows:

	December 31, 2013		December 31, 2012	
	Weighted Average Exercise Price	**No. of Options**	Weighted Average Exercise Price	No. of Options
	$		$	
Outstanding at beginning of year	**0.11**	**12,450,000**	0.18	13,496,465
Transactions during the year:				
Granted	**-**	**-**	0.10	7,000,000
Expired	**-**	**-**	0.45	(501,019)
Forfeited	**-**	**-**	0.21	(7,545,446)
Outstanding at end of year	**0.11**	**12,450,000**	0.11	12,450,000
Exercisable at end of year	**0.11**	**11,450,000**	0.11	10,450,000

(Expressed in Canadian dollars)

The following table provides additional information about outstanding stock options at December 31, 2013:

Range of Exercise Prices	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price ($)
$0.10	11,700,000	3.16	0.10
$0.25 - $0.33	650,000	1.59	0.29
$0.40	100,000	0.09	0.40
$0.10 - $0.40	**12,450,000**	**3.05**	**0.11**

Share-based compensation

The fair value of the stock options vested for the year ended December 31, 2013, was $27,900 (2012 – $124,850), which amount has been expensed in the consolidated statements of loss. There were no new stock options issued during the year ended December 31, 2013.

i) On November 14, 2011, the Company issued 8,600,000 stock options to eligible participants of the Company's stock option plan. 100,000 of these options were issued to an investor relations group. The grant-date fair value of the stock options was $0.05 each and was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate 1.37%, expected dividend yield of 0%, expected stock price volatility 151.86% and expected optiion life of five years. 8,500,000 stock options vested immediately. Pursuant to the Company's stock option plan, the options issued to the investor relations group vest in four tranches at the 3, 6, 9 and 12-month anniversary dates. Share-based compensation for 2013 for the vested portion of these options amounted to $nil (2012 - $550).

ii) On February 1, 2012, the Company granted 2,000,000 stock options to the Company's Chief Executive Officer. The options have a term of 5 years, are exercisable at $0.10 per share and vest 25% on the date of grant and 25% on each of the first, second and third anniversary of October 26, 2011. The fair value of the stock options of $80,000 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate 1.09%, expected dividend yield of 0%, expected stock price volatility 153% and expected option life of five years. Share-based compensation for 2013 for the vested portion on these options amounted to $15,600 (2012 - $58,800).

iii) On April 25, 2012, the Company granted 1,500,000 stock options to the Company's Vice President of Exploration. The options have a term of 5 years, are exercisable at $0.10 per share and vest one-third on issuance and one-third on each of the first and second annual anniversary of issuance. The grant-date fair value of the options was $45,000 and was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate 1.69%, expected dividend yield of 0%, expected stock price volatility 154% and expected option life of five years. Share-based compensation for 2013 for the vested portion on these options amounted to $12,300 (2012 - $30,500).

iv) On August 28, 2012, the Company granted 3,500,000 stock options to the Company's Directors and Chief Executive Officer. The options have a term of 5 years, are exercisable at $0.10 per share and vest on issuance. The grant-date fair value of the options was $35,000 and was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate 1.39%, expected dividend yield of 0%, expected stock price volatility 163% and expected option life of five years. Share-based compensation for 2013 for the vested portion on these options amounted to $nil (2012 - $35,000).

14. Related-party transactions and balances

During the year ended December 31, 2013, $180,000 (2012 - $180,000) of management fees were paid or payable to RG Mining Investments Inc. ("RGMI") together with administrative fees of $1,206 (2012- $2,207). RGMI provides management and administrative services to the Company pursuant to an agreement that had an original term of 1 year and expired on September 30, 2012. It has been renewed for successive 12-month periods. The agreement may be terminated upon 60 days prior notice by either party or upon the criminal conviction, death, disability, incapacity, bankruptcy, insolvency, gross negligence, gross dereliction of duty or gross misconduct, of RGMI. The Company's Chairman of the Board and CFO beneficially own RGMI.

During the year ended December 31, 2013, $443,861 (2012 - $567,130) was earned or paid to key management personnel or to companies controlled by them, with regard to professional fees and salaries and benefits. The Company identifies key management personnel as current and former officers of the Company including the President and CEO, CFO and VP Exploration as well as current and former directors of the Company.

During the year ended December 31, 2013, officers and directors earned non-cash, share-based compensation of $27,900 (2012 - $124,850).

Due to related-parties

As at December 31, 2013, the statement of financial position includes balances due to related parties comprising of $5,829 (2012 - $2,787) due to an entity in which a former director of the Company is a Partner and $8,333 (2012 - $16,666) due to an officer of the Company.

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Due from related-parties

As at December 31, 2013, the statement of financial position includes shareholder loans of $100,000 comprising secured loans to directors and / or officers of the Company to enable them to purchase the Company's shares from one of the Company's shareholders who requested the assistance of the Company to divest his shares. The term of the loans is for one year and interest accrues at the rate of 7% per annum, compounded monthly. Both principal and accrued interest are payable on the maturity date, October 2, 2014, and the loans are secured by promissory notes from the borrowers. Upon occurrence of default, the borrowers shall pay interest to the Company at a rate of 36% per annum compounded and payable monthly. As at December 31, 2013, interest accrued from these loans amounted to $1,732.

As further security to the Company, the borrowers agreed not to sell, pledge or otherwise encumber the shares until the full amount of the loans was repaid (including applicable interest). To perfect the undertaking by the borrowers, RGMI is acting as custodian of the physical share certificates on behalf of the Company.
On March 7, 2014, the Company received $20,863 as repayment of outstanding amounts (including

(Expressed in Canadian dollars)

interest), of one of the loans.

15. Sale of Akroma Gold Company Limited

On June 19, 2013, the Company entered into a share purchase agreement (the "Agreement"), together with its wholly-owned subsidiary, Harbour Capital Corporation ("HCC"), to sell HCC's interest in Akroma Gold Company Limited ("Akroma") to its joint venture partner, Sian Goldfields Limited ("Sian") for an aggregate purchase price of $3,513,427 (US$3,400,000). Akroma is the joint-venture company holding title to the Sian mining lease for the Sian gold project located in the eastern region of Ghana.

Pursuant to the Agreement, the Company received a US$340,000 deposit from the purchaser. Subsequently, the remaining conditions of the sale were satisfied at the Company's Annual and Special Meeting held on July 30, 2013, wherein the Company's shareholders approved the sale. The transaction closed on August 19, 2013.

The Company recorded a gain on the sale of $3,537,212.

Akroma's loss for the period prior to the sale (January 1, 2013 to August 19, 2013) of $124,672 has been included in the Company's net loss for the year.

16. Exploration and evaluation expenditures

The exploration and evaluation expenditures for the Company are broken down as follows:

	Year ended		
	December 31, 2013	December 31, 2012	**Cumulative to-date**
	$	$	**$**
Tanzania [1] :			
Itilima	**8,922**	56,952	**2,303,933**
New Kilindi	**30,148**	16,116	**46,264**
Vukene	**-**	8,897	**91,545**
Lwenge	**-**	508	**21,793**
Kishapu	**3,454**	1,962	**52,877**
Lalago	**7,157**	4,023	**74,918**
Tamota	**-**	-	**42,270**
East Turiani	**-**	9,278	**9,278**
Others	**161,362**	179,508	**823,727**
	211,043	277,244	**3,466,605**
Ghana:			
Kwahu Praso [2]	**-**	203,491	**973,248**
Kaniago [3]	**41,729**	703,034	**2,094,122**
Sian [4]	**124,672**	308,755	**-**
Bonuama [5]	**-**	3,932	**101,252**

(Expressed in Canadian dollars)

Others [5]	**209,222**	372,737	**1,639,611**
	375,623	1,591,949	**4,808,233**
Exploration and evaluation expenditures	**586,666**	1,869,193	**8,274,838**

(1) In Tanzania, the operation was closed pursuant to a full year of effort to option-out individual, or groups of mineral licenses in the portfolio. Midlands' office in Shinyanga was shut down in June 2013 and the properties that were staked directly by Midlands were relinquished. The optioned properties of Itilima and Lwenge-Geita were returned to their respective owners in good and valid condition. In January 2014, the Company's three Tanzanian subsidiaries were made dormant in anticipation of their imminent dissolution, such activities still ongoing with local governmental authorities.

(2) The Kwahu Praso property was put on care and maintenance to negotiate terms of sale with interested parties.

(3) Progress was made regarding potential sale of the Company's other properties in Ghana, particularly the Kaniago project, which has been agreed with a buyer and still requires local government and TSXV approval.

(4) Sian project has been excluded following the sale of Akroma (note 15).

(5) The Bonuama and other miscellaneous property licenses were not renewed.

17. Property and equipment

Property and equipment is comprised as follows:

Cost	$
Balance at January 1, 2012	-
Additions	30,802
Balance December 31, 2012	**30,802**
Additions	-
Balance December 31, 2013	**30,802**

Accumulated depreciation	$
Balance at January 1, 2012	-
Depreciation	(3,080)
Balance December 31, 2012	**(3,080)**
Depreciation	(5,545)
Balance December 31, 2013	**(8,625)**

Net value	$
Balance December 31, 2012	**27,722**
Balance December 31, 2013	**22,177**

(Expressed in Canadian dollars)

18. Commitments and contractual obligations

The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement. This may include increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees. At present, the Company has complied with existing laws with regard to environmental legislation.
The Company has not determined and is not aware whether any provision for such costs is required and is unable to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

19. Segmented information

Operating Segments

At December 31, 2013 the Company's operations comprise a single reporting operating segment engaged in mineral exploration in Ghana and Tanzania. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment. As the operations comprise a single reporting segment, amounts disclosed in the Consolidated Financial Statements also represent operating segment amounts.

Geographic Segments

Management has organized the Company's reportable segments by geographic area. The Ghanaian and Tanzanian segments are responsible for that country's mineral exploration and production activities while the Canadian segment manages corporate head office activities. Information concerning Midlands's reportable segments is as follows:

	Years ended	
	December 31, 2013	December 31, 2012
	$	$
Profit (loss) attributable to the owners of parent company		
Canada	**2,818,718**	(1,518,135)
Tanzania	**(211,043)**	(277,244)
Ghana	**(375,623)**	(1,591,949)
	2,232,052	(3,387,328)

(Expressed in Canadian dollars)

Significant non-cash items		
Canada:		
Share-based compensation	**27,900**	124,850
Gain on sale of subsidiary	**3,537,212**	-
	3,565,112	124,850

As at	December 31, 2013	December 31, 2012
Identifiable assets		
Canada	**3,419,744**	1,125,626
Tanzania	**-**	5,564
Ghana	**23,612**	114,226
	3,443,356	1,245,416

20. Income taxes

Income taxes

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rate is as follows:

	2013		2012	
	$	**%**	$	%
Profit (loss) before income taxes	**2,232,052**		(3,371,690)	
Combined statutory rate	**26.5%**		26.5%	
Expected income (tax) benefit	**(591,494)**	**(26.5)**	893,498	26.5
Increase (decrease) in income taxes resulting from:				
Stock-based compensation	**(7,394)**	**(0.3)**	(33,085)	(1.0)
Share issue costs	**110,011**	**4.9**	110,118	3.4
Impact of deferred income tax rates applied versus current statutory rates	**-**	**-**	-	-
Other permanent differences	**1,005,803**	**45.1**	(502,605)	(15.0)
Tax benefits not recognized	**(520,014)**	**(23.3)**	(452,288)	(13.4)
Deferred income taxes	**(3,088)**	**(0.1)**	15,638	0.5

(Expressed in Canadian dollars)

The Canadian statutory income tax rate of 26.5% (2012 – 26.5%) is comprised of the federal income tax rate at approximately 15% (2012 – 15%) and the provincial income tax rate of approximately 11.5% (2012 – 11.5%).

The Company also has non-capital loss-carry forwards of $12,763,000 (2012 - $11,953,000) for which no benefit has been recognized in these consolidated financial statements. These non-capital losses expire as follows:

	Canada
	$
2013	91,000
2014	303,000
2015	830,000
2026	900,000
2027	996,000
2028	1,182,000
2029	746,000
2030	1,972,000
2031	3,183,000
2032	1,750,000
2033	810,000
	12,763,000

Deferred income taxes

Deferred income taxes reflect the net tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2013	December 31, 2012
Unrecognized deferred income tax asset (liability):	**$**	$
Non-capital losses carry forward	**3,382,195**	3,167,500
Share issue costs	**136,106**	246,200
Plant and equipment	**2,286**	800
Available-for-sale investments	**861**	861
Unrecognized net deferred income tax asset	**3,521,448**	3,415,361

21. Subsequent events

(i) On April 7, 2014, the Company announced that it had entered into a definitive agreement (the "Option Agreement"), with Reservoir Minerals Inc. ("Reservoir") with an effective date of April 3, 2014, for an option to acquire up to a 75% interest in Reservoir's Parlozi lead-zinc-silver project in Serbia. The Option Agreement provides that Midlands can earn an initial 51% interest in the project by spending $4.5 million on exploration over a four-year period. Minimum expenditures of $500,000 must be made before September 30, 2014, such amounts to include 1,500 meters of drilling costs and reimbursement of exploration expenditures on the project by Reservoir since June 6th, 2013 up to a maximum of $500,000. Further minimum expenditures of $1,500,000 must be made prior to January 15, 2016 and $2,500,000 by January 15, 2018. Thereafter, Midlands can earn an additional 14% interest over a further two-year period by obtaining a mining exploitation permit from the Serbian Government and a further 10% (for a total of 75%) by completing a bankable feasibility study within two years of obtaining the mining exploitation permit. The Company has received acceptance of its filing documentation of the Option Agreement from the TSXV on April 21, 2014.

(ii) Progress has been made regarding potential sale of the Company's other properties in Ghana, particularly the Kaniago project, which has been agreed with a buyer and is subject only to local government and TSXV approval. The Kwahu Praso property was put on care and maintenance to negotiate terms of sale with interested parties.