

Condensed Interim Consolidated Financial Statements of

**BIRD RIVER RESOURCES INC.**  
**(An Exploration Company)**

(Unaudited - Prepared by Management)

For the three months ended January 31, 2014

Expressed in Canadian dollars

These condensed interim consolidated financial statements have not been audited or reviewed by the company's independent external auditors, Magnus Chartered Accountants LLP.

# BIRD RIVER RESOURCES INC.

Condensed Interim Consolidated Statements of Financial Position

As at January 31, 2014 (unaudited) and July 31, 2013 (audited)

(Expressed in Canadian dollars)

	January 31 2014	July 31 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 4)	\$ 215,119	\$ 217,347
Trade receivables	11,350	23,939
Goods and services tax recoverable	1,219	1,435
Inventory	18,802	23,234
Note receivable (Note 5)	35,386	35,386
<b>Total current assets</b>	<b>281,876</b>	<b>301,341</b>
Non-current assets:		
Property and equipment (Note 6)	406,467	415,730
Exploration and evaluation assets (Note 8)	126,977	126,977
<b>Total non-current assets</b>	<b>533,444</b>	<b>542,707</b>
<b>Total assets</b>	<b>\$ 815,320</b>	<b>\$ 844,048</b>
<b>Liabilities and Equity</b>		
Liabilities:		
Current liabilities:		
Trade payables	\$ 20,347	\$ 14,772
Other payables (Note 9)	38,404	43,625
<b>Total current liabilities</b>	<b>58,751</b>	<b>58,397</b>
Non-current liabilities:		
Decommissioning obligations (Note 10)	8,545	8,420
Deferred income taxes	4,400	4,400
<b>Total non-current liabilities</b>	<b>12,945</b>	<b>12,820</b>
<b>Total liabilities</b>	<b>71,696</b>	<b>71,217</b>
Equity:		
Share capital (Note 11)	1,012,247	1,012,247
Share-based payments reserve	92,200	91,131
(Deficit)	(360,823)	(330,547)
<b>Total equity</b>	<b>743,624</b>	<b>772,831</b>
Going concern of operations (Note 2(b))		
<b>Total liabilities and equity</b>	<b>\$ 815,320</b>	<b>\$ 844,048</b>

See accompanying notes to condensed interim consolidated financial statements.

**Approved on behalf of the Board on March 28, 2014:**

Director (signed) "Nelson Shodine"

Director (signed) "Jon Bridgman"

# BIRD RIVER RESOURCES INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Three months ended January 31, 2014 and 2013 and six months ended January 31, 2014 and 2013  
(unaudited)

(Expressed in Canadian dollars)

	Q2 2014	Q2 2013	YTD 2014	YTD 2013
Revenue:				
Petroleum and natural gas revenue	\$ 15,637	\$ 26,837	\$ 41,799	\$ 67,564
Industrial mineral sales	12,195	10,345	25,496	22,845
	27,832	37,182	67,295	90,409
Expenses:				
Depletion	5,139	5,432	8,802	13,631
Depreciation	231	303	462	606
General and administrative (Note 13)	30,889	34,428	60,432	67,562
Production and operating - petroleum and natural gas	6,128	10,685	11,330	27,390
Production and operating - industrial minerals	10,275	8,440	18,806	17,038
Share-based payments (Note 12(c))	-	1,604	1,069	3,207
	52,662	60,892	100,901	129,434
(Loss) from operations	(24,830)	(23,710)	(33,606)	(39,025)
Other income (expenses):				
Accretion expense	(63)	(53)	(125)	(107)
Interest income	1,810	1,454	3,455	3,676
	1,747	1,401	3,330	3,569
Net (loss) and comprehensive (loss) for the period	\$ (23,083)	\$ (22,309)	\$ (30,276)	\$ (35,456)
Basic and diluted loss per share (Note 11(c))	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

See accompanying notes to condensed interim consolidated financial statements.

# BIRD RIVER RESOURCES INC.

Condensed Interim Consolidated Statements of Changes in Equity

Six months ended January 31, 2014 and 2013 (unaudited)

(Expressed in Canadian dollars)

	2014	2013
<b>Share capital</b>		
Balance, beginning and end of period	\$ 1,012,247	\$ 1,012,247
<b>Share-based payments reserve</b>		
Balance, beginning of period	\$ 91,131	\$ 84,717
Share-based payments	1,069	3,207
Balance, end of period	\$ 92,200	\$ 87,924
<b>(Deficit)</b>		
Balance, beginning of period	\$ (337,740)	\$ (249,070)
Comprehensive (loss) for the period	(23,083)	(35,456)
Balance, end of period	\$ (360,823)	\$ (284,526)
<b>Total equity, end of period</b>	<b>\$ 743,624</b>	<b>\$ 815,645</b>

See accompanying notes to condensed interim consolidated financial statements.

# BIRD RIVER RESOURCES INC.

## Condensed Interim Consolidated Statements of Cash Flows

Three months ended January 31, 2014 and 2013 and six months ended January 31, 2014 and 2013  
(unaudited)

(Expressed in Canadian dollars)

	Q2 2014	Q2 2013	YTD 2014	YTD 2013
Operating activities:				
Net loss for the period	\$ (23,083)	\$ (22,309)	\$ (30,276)	\$ (35,456)
Adjustments for:				
Depletion and depreciation	5,370	5,735	9,264	14,237
Accretion expense	63	53	125	107
Share-based payments	-	1,604	1,069	3,207
Interest accrued to principal on note receivable	-	(12)	-	(12)
	(17,650)	(14,929)	(19,818)	(17,917)
Changes in the following:				
Trade receivables	11,159	15,003	12,589	12,252
Goods and services tax recoverable	(294)	(815)	216	(1,200)
Inventory	2,926	(5,174)	4,432	(3,614)
Trade payables	6,295	(231)	5,574	(2,733)
Other payables	(9,073)	(25,320)	(5,221)	(22,672)
Income taxes recoverable	-	36,193	-	36,193
	(6,637)	4,727	(2,228)	309
Investing activity:				
Investment in exploration and evaluation assets	-	(40,000)	-	(40,000)
Change in cash and cash equivalents	(6,637)	(35,273)	(2,228)	(39,691)
Cash and cash equivalents, beginning of period	221,756	311,774	217,347	316,192
Cash and cash equivalents, end of period	\$ 215,119	\$ 276,501	\$ 215,119	\$ 276,501

### Supplementary information:

The company did not pay any income taxes during the above reporting periods.

See accompanying notes to condensed interim consolidated financial statements.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

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## Nature of operations

Bird River Resources Inc. (the "company") is a publicly listed company incorporated under the laws of Manitoba on March 7, 1958. The mailing and office address of its executive office is: 1059 Selkirk Avenue, Winnipeg MB, R2X 0C2.

The principal business activities include the acquisition and exploration of resource properties with the company's primary focus on petroleum and natural gas properties. The company also engages in secondary activities, from time to time, involving the purchase or acquisition of certain industrial minerals, typically diatomaceous earth and bentonite, for distribution and re-sale or for use in an abandoned water well sealing operation. The company's shares are listed on the Canadian National Stock Exchange.

## 1. Statement of compliance

These condensed interim consolidated financial statements are unaudited and have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements should be read in conjunction with the company's 2013 annual consolidated financial statements.

These condensed interim consolidated financial statements of Bird River Resources Inc. for the three months ended January 31, 2014 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on March 28, 2014. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ended July 31, 2014 could result in restatement of amounts included in these unaudited condensed interim consolidated financial statements.

## 2. Significant accounting policies

### (a) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

### (b) Going concern of operations

The going concern assumption implies that the company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is doubt about the appropriateness of the use of the going concern assumption because the company has experienced ongoing losses and negative cash flows from operations over a number of years.

The company has not yet determined whether its exploration and evaluation assets contain reserves that are economically recoverable, and accordingly, the success of any further exploration or development prospects cannot be assured. If the company's exploration and development programs are successful, additional funds may be required, and the company may not have sufficient funds to conduct the exploration required. The primary source of future funds available to the company is through the sale of additional equity capital, which may dilute the interests of existing shareholders.

These condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate, then adjustments may be necessary to the carrying value of assets and liabilities and the reported amounts of revenue and expenses.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

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## 2. Significant accounting policies (continued)

### (c) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the company and its wholly-owned subsidiary 2411181 Manitoba Ltd. All significant inter-company transactions have been eliminated.

### (d) Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory is assigned using the first-in, first-out costing formula. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of selling. In the current six month period, the company recognized \$18,806 of inventory as an expense (2012 - \$17,038) and no inventory has been valued at net realizable value.

### (e) Property and equipment

#### *Recognition and measurement*

Exploration and evaluation equipment and vehicles are recorded at historical cost less accumulated depreciation and impairment losses. Residual values, depreciation methods and useful economic lives are reviewed and adjusted as necessary at the end of each reporting period. Cost includes expenditures that are directly attributable to the acquisition of the asset. When components of exploration and evaluation equipment and vehicles have different useful lives, they are accounted for as a separate item of property and equipment.

Petroleum and natural gas properties represent the cost of developing the commercial reserves and bringing them into production. These assets include the exploration and evaluation costs that are reclassified to property and equipment in accordance with the accounting policy for exploration and evaluation assets as described in Note 2(f) to these condensed interim consolidated financial statements.

#### *Subsequent costs*

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied within the component will flow to the company, and its costs can be reliably measured. The carrying amount of the replaced component is derecognized. The costs of servicing property and equipment are recognized in profit or loss as incurred.

#### *Depletion and depreciation*

Exploration and evaluation equipment and vehicles are depreciated based on the cost of the asset less its residual value. Depreciation methods and rates are applied consistently within each asset class except where significant individual assets have been identified which have different depreciation patterns.

Petroleum and natural gas properties are depleted using the unit of production method based on the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

Depreciation and depletion are recognized in profit or loss. The following rates and method are used:

	<u>Rate</u>	<u>Method</u>
Exploration and evaluation equipment	20%	Declining balance
Vehicles	30%	Declining balance
Petroleum and natural gas properties	-	Unit of production

In the year of acquisition, depreciation is provided at one-half the declining balance rate. Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

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## 2. Significant accounting policies (continued)

### (e) Property and equipment (continued)

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

### (f) Exploration and evaluation expenditures

Costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are expensed as incurred.

#### *Capitalized costs*

Exploration and evaluation expenditures, which include petroleum and natural gas properties and mineral exploration properties, are defined as costs incurred after having obtained the legal right to explore the property and before the technical and commercial viability of extracting resources are demonstrated.

The company follows the full cost method whereby all costs associated with the acquisition, exploration and development of reserves are capitalized in cost centers from the time the company obtains legal right to undertake exploration and evaluation activities on a project. Such costs include land and lease acquisitions, geological and geophysical expenditures, drilling of productive and non-productive wells, production and gathering equipment and facilities, carrying costs directly related to unproven properties, and corporate costs directly related to the acquisition. Amounts capitalized to these cost centers represent costs to date and are not intended to represent present or future values. The recoverability of the costs is dependent upon the discovery of economically recoverable reserves, confirmation of the company's interests in the underlying claims, the ability to obtain necessary financing to complete development and the development of future profitable production from the properties or realization of sufficient proceeds from the disposition of the properties.

If technical feasibility and commercial viability have been established, the carrying amount of the related exploration and evaluation asset is tested for impairment as discussed below. The carrying value, net of any impairment loss, is then reclassified to property and equipment as mineral exploration properties or petroleum and natural gas properties. If the company decides not to continue the exploration and evaluation activity, then the accumulated costs are expensed as impairment in the period in which the event occurs.

#### *Impairment test*

Exploration and evaluation assets are reviewed for impairment only when facts and circumstances suggest that the carrying amount may exceed the recoverable amount or when technical feasibility and commercial viability have been established. The recoverable amount of an asset or cash-generating unit is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, excluding impairment losses for exploration and evaluation assets reclassified to property and equipment, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.



# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

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## 2. Significant accounting policies (continued)

### (g) Borrowing costs

The company capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset when it is probable that these costs will result in future economic benefits and when they can be reliably measured. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are expensed as incurred.

### (h) Provisions

#### *General*

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The expense relating to any provision is presented in profit or loss net of any reimbursement.

#### *Decommissioning obligations*

The company recognizes the fair value of a liability for decommissioning obligations in the period in which the company is legally or constructively required to remediate, if a reasonable estimate of fair value can be made, based on an estimated future cash settlement of the decommissioning obligation, discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The decommissioning obligation is capitalized as part of the carrying amount of the associated long-lived asset and a liability is recorded. The decommissioning obligation is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of decommissioning obligation cash flows.

### (i) Joint arrangements

A portion of the company's exploration activities is conducted jointly with others wherein the company enters into agreements that provide for specified percentage interests in petroleum and natural gas properties and exploration and evaluation assets. These joint arrangements are classified as either a joint operation or a joint venture depending on the rights and obligations of the parties to the arrangement.

### (j) Loss per share

Diluted loss per share is calculated using the treasury stock method which assumes all common share equivalents, such as options and warrants had been exercised at the beginning of the reporting period of issue and that the funds obtained therefrom were used to purchase common shares of the company at the estimated average trading price of the common shares during the year.

### (k) Revenue recognition

Revenue from sales of precious metals and petroleum and natural gas is recognized when the significant risks and rewards of ownership are transferred to the buyer, which is when legal title passes to the buyer and when collection is reasonably assured. This is generally at the time product enters the pipeline or is delivered to the refinery.

Revenue from the sale of industrial minerals is recognized when goods are shipped and when collection is reasonably assured.

Interest income is recognized as accrued.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

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## 2. Significant accounting policies (continued)

### (l) Income taxes

Income tax expense comprises current and deferred income tax. Current and deferred income tax are recognized in profit or loss except to the extent that the tax relates to items recognized directly in equity or in other comprehensive income or loss.

#### (i) Current income tax

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

#### (ii) Deferred income tax

Deferred tax is recognized in respect of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax is measured at the enacted or substantially enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the date of enactment or substantive enactment.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### (m) Share-based payments

The company has implemented a stock option plan to allow the company to grant options to directors, officers, employees and service providers. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors and officers of the company. The maximum number of common shares which may be issued pursuant to those granted under the stock option plan are limited to 1,892,000 common shares at a price determined by the Board of Directors. In addition, the number of options issued to any one individual may not exceed 5% of the issued common shares on a yearly basis. For any person providing ongoing services or employed in investor relations activities, the number of options granted may not exceed 2% of the issued common shares on a yearly basis.

The company uses the fair value-based approach to account for share-based payments under its stock option plan. Compensation expense is recognized for these stock options over their vesting period based on their estimated fair values on the date of grant as determined by the Black-Scholes option-pricing model. The fair value of the options is adjusted by the estimate of the number of options that are expected to vest as a result of non-market conditions. At each balance sheet date, the company revises its estimate of the number of options that are expected to vest.

The fair values of the options issued, if any, are credited to share-based payments reserve in the period they vest. Upon exercise of the share purchase options, consideration paid together with the amount previously recognized in share-based payments reserve is recorded as an increase in share capital. Charges to share purchase options that are forfeited before vesting are reversed from share-based payments reserve. For those share purchase options that expire or are forfeited after vesting, the amount previously recorded in share-based payments reserve is transferred to retained earnings or deficit.

Share-based payments granted to non-employees are measured at the fair value of the goods or services received. In the event the company cannot reasonably estimate the fair value of goods or services received, the transaction is recorded at the estimated value of the share-based payment.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

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## 2. Significant accounting policies (continued)

### (n) Financial instruments

#### (i) Non-derivative financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All financial assets are recognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as FVTPL which are initially measured at fair value.

#### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is considered to be held-for-trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

#### *Held-to-maturity*

A financial asset is classified as held-to-maturity if the asset has fixed or determinable payments and fixed maturities that the company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. Any changes to the carrying amount of the asset, including impairment losses, are recognized in other comprehensive income or loss.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as loans and receivables, held-to-maturity or financial assets at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income or loss and presented within equity in the fair value reserve. Equity instruments that do not have an active market are recorded at cost. When an investment is derecognized, the cumulative gain or loss in other comprehensive income or loss is transferred to profit or loss.

#### *Loans and receivables*

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

#### *De-recognition of financial assets*

The company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

## 2. Significant accounting policies (continued)

### (n) Financial instruments (continued)

#### (ii) Non-derivative financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

#### *Financial liabilities at fair value through profit or loss*

A financial liability is classified at fair value through profit or loss if it is considered to be held-for-trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

#### *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

#### *De-recognition of financial liabilities*

The company de-recognizes financial liabilities when the company's obligations are discharged, cancelled or they expire.

#### (iii) The company's financial instruments consist of the following:

Financial instrument	Classification	Measurement
Cash and cash equivalents	FVTPL	Fair value
Trade receivables	Loans and receivables	Amortized cost
Goods and services tax recoverable	Loans and receivables	Amortized cost
Note receivable	Loans and receivables	Amortized cost
Trade payables	Other financial liabilities	Amortized cost
Other payables	Other financial liabilities	Amortized cost

### (o) Impairment of long-lived assets

#### (i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow.

#### *Financial assets measured at amortized cost*

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### *Financial assets carried at cost*

An impairment loss of a financial asset carried at cost, where its fair value cannot be reliably measured, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of similar financial assets. Such impairment losses are not reversed.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

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## 2. Significant accounting policies (continued)

### (o) Impairment of long-lived assets (continued)

#### *Available-for-sale financial assets*

An impairment loss of an available-for-sale financial asset is recognized by transferring the cumulative loss that has been recognized in other comprehensive income or loss, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income or loss and recognized in profit or loss is the difference between acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. If, however, the fair value of an impaired available-for-sale equity security increases, the amount of reversal is recognized in other comprehensive income or loss.

### (ii) Non-financial assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets, other than exploration and evaluation assets, to determine whether there is an indication that those assets have been impaired. 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. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the assets belong.

Exploration and evaluation assets are reviewed for impairment only when facts and circumstances suggest that the carrying amount may exceed the recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income or loss.

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

### (p) Use of estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make accounting estimates and assumptions requiring judgment in applying the company's accounting policies. These estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant areas requiring the use of management estimates are as follows:

#### *Depletion and valuation of property and equipment*

The amounts recorded for depletion of petroleum and natural gas properties and the valuation of petroleum and natural gas properties are based on estimates. These estimates include proven and probable reserves, future production rates, future petroleum and natural gas prices, remaining lives and period of future benefits of the related assets and other relevant assumptions.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

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## 2. Significant accounting policies (continued)

### (p) Use of estimates and judgments (continued)

The company's reserve estimates are evaluated annually. Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, future development costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated. Changes in reserve estimates impact the financial results of the company as reserves and estimated future development costs are used to calculate depletion and are also used in impairment calculations.

The determination of cash-generating units, used in impairment tests, requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash-generating units are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The discount rate used to calculate the net present value of cash flows for impairment testing is based on estimates of market conditions, recent asset sales and an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

#### *Valuation of exploration and evaluation assets*

The value of exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves which in turn is dependent on future petroleum and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

The decision to transfer assets from exploration and evaluation assets to property and equipment is based on estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

#### *Deferred income taxes*

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

#### *Decommissioning obligations*

The company's decommissioning obligations are estimated based on assumptions relating to the company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon any wells and facilities and the estimated timing of the costs to be incurred in future years using estimated discount rates. Changes to environmental laws and regulations may also impact the amount of the company's obligations.

#### *Share-based payments*

The amounts recorded relating to the fair value of stock options and warrants issued are based on estimates of the future volatility of the company's share price, market price of the company's shares at grant date, expected lives of the options, expected forfeiture rate, expected dividends and other relevant assumptions.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

(Expressed in Canadian dollars)

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## 2. Significant accounting policies (continued)

### (q) Recent accounting announcements

Standards issued but not yet effective up to the date of issuance of the company's condensed interim consolidated financial statements are listed below. This listing is of the standards and interpretations issued, which the company reasonably expects to be applicable at a future date. The company intends to adopt those standards when they become effective. The company does not expect the impact of such changes on the financial statements to be material.

#### *IFRS 9 Financial Instruments: Classification and measurement*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the company's financial assets.

## 3. Evaluation and exploration expenses

During the three month period ending January 31, 2014, the company has expensed evaluation and exploration costs in the amount of \$Nil (2012- \$Nil).

## 4. Cash and cash equivalents

	January 31 2014	July 31 2013
Cash	\$ 8,492	\$ 11,177
Treasury bills - Money market fund	206,627	206,170
<b>Total cash and cash equivalents</b>	<b>\$ 215,119</b>	<b>\$ 217,347</b>

Cash is deposited at an established Canadian financial institution.

## 5. Note receivable

The note receivable bears interest at 13% per annum, is due in February 2014 and is secured by a general security agreement.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

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## 6. Property and equipment

	Exploration and evaluation equipment	Vehicles	Petroleum and natural gas properties	Total
<b>Cost</b>				
Balance, July 31, 2013	\$ 52,333	\$ 11,342	\$ 449,758	\$ 513,433
Balance, January 31, 2014	\$ 52,333	\$ 11,342	\$ 449,758	\$ 513,433
<b>Accumulated depletion and depreciation</b>				
Balance, July 31, 2013	\$ 49,360	\$ 10,247	\$ 38,096	\$ 97,703
Depletion and depreciation for the period	297	164	8,802	9,263
Balance, January 31, 2014	\$ 49,657	\$ 10,411	\$ 46,898	\$ 106,966
<b>Carrying value</b>				
At July 31, 2013	\$ 2,973	\$ 1,095	\$ 411,662	\$ 415,730
At January 31, 2014	\$ 2,676	\$ 931	\$ 402,860	\$ 406,467

## 7. Interests in joint arrangements

The company participates in a joint operation with Antler River Resources Ltd. and other parties relating to twelve oil wells located in southwestern Manitoba (LSD 6-13-7-29, LSD 2-29-2-28, LSD 14-15-8-28, HZ 13-15-8-28, HZ 11-26-1-28, HZ 12-15-8-28, HZ 7-34-1-28, HZ 13-23-1-28, HZ 15-30-1-27, HZ 3-15-8-28, HZ 16-16-7-28, and HZ 3-22-7-28). The company has rights to the assets and obligations for the liabilities relating to this joint operation, therefore has recognized its share of the assets, liabilities, revenues and expenses in these financial statements. Pursuant to the arrangement, expenditures are limited to costs of surface access, building location, drilling, completing, equipping and operating or abandoning the oil wells. The related expenditures are deferred in the accounts of the company until the technical and commercial viability of extracting resources has been demonstrated. The company has earned an interest equal to 80% of their contribution to the costs of surface access, building location, drilling, completing, equipping and operating or abandoning the oil wells, which represents, approximately, a 4% interest in the joint operation. As at January 31, 2014, technical and commercial viability of extracting resources has been demonstrated on all twelve oil wells and as a result the amounts previously capitalized to exploration and evaluation assets have been transferred to petroleum and natural gas properties in property and equipment and are being depleted accordingly (see Note 6).

## 8. Exploration and evaluation assets

(a) The company has capitalized the following amounts:

	January 31 2014	July 31 2013
Petroleum and natural gas properties:		
Lease holdings (i)	126,704	126,704
Mineral exploration properties (ii)	273	273
	\$ 126,977	\$ 126,977



# BIRD RIVER RESOURCES INC.

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## 8. Exploration and evaluation assets (continued)

(i) The company has invested in eight lease holdings as follows:

- 1) Northwest quarter 23-1-28, 25% owned with a three-year lease term.
- 2) Southwest quarter 23-1-28, 25% owned with a three-year lease term.
- 3) Northeast quarter 14-4-22, 100% owned with a five-year lease term.
- 4) Northeast quarter 17-1-27, 25% owned with a three-year lease term.
- 5) Northeast quarter 23-1-28, 25% owned with a three-year lease term.
- 6) Northeast quarter 30-1-27, 25% owned with a three-year lease term.
- 7) Northeast quarter 2-3-26, 100% owned with a two-year lease term.
- 8) Southeast quarter 2-3-26, 100% owned with a two-year lease term.

(ii) The company holds one Quarry Lease, QL - 1530, located 85 kilometres southwest of Winnipeg near Miami, Manitoba. The 8 hectare lease hosts a narrow bed of bentonite.

The company previously held an exploration property known as the Ore Fault property located on the Bird River Greenstone Belt, 125 kilometres northeast of Winnipeg, Manitoba. On August 19, 2008 Marathon PGM acquired the balance of the Ore Fault property consisting of 19 claims which covers 446 hectares. Under the joint venture agreement Marathon had an option to earn 100% of the Ore Fault property once their interest reached 70%. Marathon exercised its option to require the company to sell the remaining 30% interest in the property for a purchase price of \$1,450,000. Bird River Resources Inc. retains a 1% net smelter return ("NSR") royalty on the Ore Fault Property.

## 9. Other payables

The company's other payables are as follows:

	January 31 2014	July 31 2013
Provincial sales taxes payable	\$ 218	\$ 278
Accrued liabilities	38,186	43,347
<b>Total other payables</b>	<b>\$ 38,404</b>	<b>\$ 43,625</b>

## 10. Decommissioning obligations

The company's decommissioning obligations result from its ownership interest in petroleum and natural gas properties. The total decommissioning provision is estimated based on the company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated undiscounted cash flows required to settle the provisions, before considering salvage, is approximately \$19,000 as at January 31, 2014 (July 31, 2013 - \$19,000), which has been discounted using a pre-tax rate of 2.96% reflecting the time value of money and the risks specific to the obligation. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 25 years into the future and will be funded from general corporate resources at the time of abandonment.

The company's decommissioning obligations for the six month period ended January 31, 2014 are as follows:

Balance, July 31, 2013	\$ 8,420
Accretion	125
<b>Balance, January 31, 2014</b>	<b>\$ 8,545</b>

# BIRD RIVER RESOURCES INC.

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## 11. Share capital

### (a) Authorized

Authorized share capital consists of an unlimited number of common voting shares.

### (b) Changes in issued common shares are summarized below:

	Number of common shares	Amount
Balance, July 31, 2013 and January 31, 2014	10,570,225	\$ 1,012,247

### (c) Loss per share

The calculation of basic and diluted loss per share, for the three month period ended January 31, 2014 and 2013 is based on the following losses and number of shares:

	Q2 2014	Q2 2013
Loss for the period	\$ (23,083)	\$ (22,309)
Weighted average number of shares	10,570,225	10,570,225

All of the outstanding stock options and warrants were anti-dilutive for the relevant period.

## 12. Share-based payments

### (a) Outstanding options

The following table summarizes the 700,000 outstanding options as at January 31, 2014:

	Number outstanding	Exercise price	Expiry date
Directors' options (i)	700,000	\$0.10	June 10, 2015

(i) Due to the resignation of directors, in accordance with the company's stock option plan, 200,000 of these options were forfeited on June 30, 2013 and 100,000 of these options were forfeited on December 31, 2013.

### (b) Changes in stock options

A summary of the changes in stock option activity for the three month period ended January 31, 2014 and 2013 is as follows:

	2014		2013	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding, beginning of period	\$ 0.10	800,000	\$ 0.10	900,000
Forfeited	0.10	(100,000)	-	-
Outstanding and exercisable, end of period	\$ 0.10	700,000	\$ 0.10	900,000

The options outstanding at the end of the period have an exercise price of \$0.10 per share and a weighted average remaining contractual life of 1.37 years.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

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## 12. Share-based payments (continued)

### (c) Effects on profit or loss

The total estimated fair value of the options granted and recognized as an expense for the three month period ending January 31, 2014 is \$Nil (2013 - \$1,604).

## 13. General and administrative expenses

The general and administrative expenses incurred by the company for the three month period ended January 31, 2014 and 2013 and the six month period ended January 31, 2014 and 2013 are as follows:

	Q2 2014	Q2 2013	YTD 2014	YTD 2013
Automotive	\$ 2,325	\$ 1,768	\$ 4,857	\$ 5,163
Director's fees	-	840	-	840
Management fee	12,000	12,000	24,000	24,000
Office	1,696	577	3,222	1,570
Professional fees	3,745	4,714	9,365	14,864
Rent	2,400	2,400	4,800	4,800
Repairs and maintenance	97	-	238	92
Stock transfer and filing fees	8,106	9,438	12,182	11,763
Telephone	462	1,400	1,490	2,859
Travel	58	1,291	278	1,611
	\$ 30,889	\$ 34,428	\$ 60,432	\$ 67,562

## 14. Related party transactions

### (a) Key management personnel compensation

The company did not pay employment based remuneration to directors, officers and other members of key management, for the three month periods ended January 31, 2014 and 2013. However, the company did pay contract based remuneration to directors, officers and other members of key management as disclosed in Note 14 (b).

### (b) Other related party transactions

During the three month period ended January 31, 2014, the company paid management fees in the amount of \$7,500 (2013 - \$7,500) to a director and officer of the company and \$4,500 (2013 - \$4,500) to another director and officer. The company also paid rent in the amount of \$2,400 (2013 - \$2,400) to a director and officer of the company during the period. These amounts are recorded at the exchange amount, which is the amount agreed upon by both parties.

As at January 31, 2014, included in trade payables are amounts owing to directors and officers of the company in the amount of \$14,000 (2013 - \$2,500).

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

For the period ended January 31, 2014 (unaudited)

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## 15. Financial instruments

### (a) Risk management and hedging activities

In the normal course of operations the company is exposed to various financial risks. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The company does not meaningfully participate in the use of financial instruments to control these risks. The company has no designated hedging transactions. The financial risks and management's risk management objectives and policies are as follows:

#### (i) Currency risk

The company does not hold any assets or liabilities denominated in a foreign currency therefore is not exposed to currency risk.

#### (ii) Price risk

The company is exposed to price risk with respect to commodity prices of oil and gas. The company monitors commodity prices in order to manage its exposure to these risks. An annual average change of 1% in crude oil prices would affect the reported net income by \$156.

#### (iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the company. The company is exposed to credit risk on its financial assets. Cash is held with an established Canadian financial institution and the company's other receivables are from Canadian government entities, from which management believes the risk of loss to be remote. The company does not have any derivatives or similar instruments that mitigate the maximum exposure to credit risk.

The carrying amount of financial assets recorded in the financial statements in the amount of \$263,074 (July 31, 2013 - \$278,107) represents the maximum exposure to credit risk at the reporting date.

#### (iv) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. Management monitors the company's liquidity by assessing forecast and actual cash flows and by maintaining adequate cash on hand. It is management's opinion that it is unlikely that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. As at January 31, 2014 the company has working capital in the amount of \$223,125 (July 31, 2013 - \$242,944).

The contractual maturities of financial liabilities, at January 31, 2014, based on the earliest date on which payment can be required, were as follows:

	Total amount	Six month or less	More than six months
Trade payables	\$ 20,347	\$ 20,347	\$ -
Other payables	38,404	38,404	-
	<u>\$ 58,751</u>	<u>\$ 58,751</u>	<u>\$ -</u>

#### (v) Interest rate risk

The company is not exposed to any meaningful interest rate risk due to the short term nature of its interest generating assets.

# BIRD RIVER RESOURCES INC.

Notes to Condensed Interim Consolidated Financial Statements

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## 15. Financial instruments (continued)

### (b) Sensitivity analysis

The company has cash and cash equivalents subject to interest rate risk of approximately \$215,119 (July 31, 2013 - \$217,347). A 1% change in the primary interest rate would affect the reported net income, on an annualized basis, by \$2,151 (July 31, 2013 - \$2,173).

### (c) Fair values, carrying amounts and changes in fair value

The fair values of the company's financial instruments approximate their carrying value due to their short-term nature. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the condensed interim statement of financial position, have been prioritized into three levels.

Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level two includes inputs that are observable other than quoted prices included in level one.

Level three includes inputs that are not based on observable market data.

The company's financial instruments within the fair value hierarchy as at January 31, 2014 is as follows:

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 215,119	\$ -	\$ -

The company's financial instruments within the fair value hierarchy as at July 31, 2013 is as follows:

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 217,347	\$ -	\$ -

### (d) Collateral

The carrying value of financial assets the company has pledged as collateral is \$Nil (2013 - \$Nil).

## 16. Capital management

The company considers its capital structure to consist of share capital, stock options and warrants. When managing capital, the company's objective is to ensure the company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral and petroleum and natural gas 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. As at January 31, 2014, the company had managed capital (being total Equity) of \$743,624 (July 31, 2013 - \$772,831).

A number of 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 the period ended January 31, 2014. The company is not subject to externally imposed capital requirements.