Montana Gold Mining Company Inc.

Condensed Interim Consolidated Financial Statements

(Expressed in United States Dollars)

(unaudited)

For the Six and Three Months Ended June 30, 2014

Management’s Responsibility for Interim Financial Statements

The accompanying unaudited condensed interim financial statements of Montana Gold Mining Company Inc. (the “Company” or "Montana") are the responsibility of management.

The unaudited condensed interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited condensed interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34, "Interim Financial Reporting", using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by, the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Edward Ellwood"	**"Eric Plexman"**
(signed)	(signed)

Notice to Reader

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

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

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

Montana Gold Mining Company Inc.
Interim Consolidated Statements of Financial Position
(Expressed in United States Dollars)
As at
(unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current		
Cash	**$ 83,793**	$ 17,744
HST receivable	**1,152**	4,607
Prepaid expenses	**1,258**	1,258
	86,203	23,609
Mining claims and deferred exploration expenditures (Note 3)	**504,100**	490,499
Reclamation bonds (Note 5)	**40,271**	40,271
	$ 630,574	$ 554,379
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 4 and 9)	**$ 422,454**	$ 537,856
Restoration liabilities (Note 5)	**22,000**	22,000
Foreign currency warrants (Note 7)	**931,690**	185,472
	1,376,144	745,328
Shareholders' Deficiency		
Capital stock (Note 6)	**8,084,300**	7,830,163
Contributed surplus	**1,570,049**	1,502,612
Deficit	**(10,399,919)**	(9,523,724)
	(745,570)	(190,949)
	$ 630,574	$ 554,379

Montana Gold Mining Company Inc.

Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in United States Dollars)

(unaudited)

	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013	For the Three Months Ended June 30, 2014	For the Three Months Ended June 30, 2013
Expenses				
Office and administrative costs	**$ 207,476**	$ 242,453	**$ 104,815**	$ 128,942
Professional fees	**23,330**	39,984	**9,462**	17,132
Stock-based compensation (Notes 7 and 9)	**67,437**	-	**63,081**	-
	298,243	282,437	**177,358**	146,074
Other expenses (income)				
(Gain) loss on foreign exchange	**(5,207)**	(32,932)	**14,158**	(31,533)
Loss (gain) on revaluation of foreign currency warrants (Note 7)	**618,606**	(51,541)	**491,938**	(54,372)
Reversal of management fees payable (Note 9)	**-**	(193,854)	**-**	(193,854)
Reversal of accounts payable	**-**	(96,909)	**-**	(96,909)
Gain on settlement of debt (Notes 6 and 9)	**(35,447)**	-	**(35,447)**	-
	577,952	(375,236)	**470,649**	(376,668)
Net earnings (loss) and comprehensive earnings (loss) for the period	**$ (876,195)**	$ 92,799	**$ (648,007)**	$ 230,594

Earnings (loss) per share (Note 8)

Basic and diluted	**$ (0.022)**	$ 0.003	**$ (0.016)**	$ 0.007

Weighted average number of common shares outstanding (Note 8)

Basic and diluted	**39,391,639**	32,343,714	**40,841,714**	33,158,480

Montana Gold Mining Company Inc.
Interim Consolidated Statements of Changes in Equity
(Expressed in United States Dollars)
As at
(unaudited)

	Number of Shares	Capital Stock	Contributed Surplus	Deficit	Total
Balance, December 31, 2012	**30,631,007**	**$ 7,652,666**	**$ 1,502,612**	**$ (9,327,925)**	**$ (172,647)**
Net loss and comprehensive loss	-	-	-	92,799	92,799
Units issued for cash	3,000,000	148,558	-	-	148,558
Allocated to warrants	-	(22,162)	-	-	(22,162)
Fair value of warrants extended	-	-	-	(48,249)	(48,249)
Balance, June 30, 2013	**33,631,007**	**$ 7,779,062**	**$ 1,502,612**	**$ (9,283,375)**	**$ (1,701)**
Net loss and comprehensive loss	-	-	-	(193,245)	(193,245)
Units issued for cash	3,650,000	176,178	-	-	176,178
Allocated to warrants	-	(125,077)	-	-	(125,077)
Fair value of warrants extended	-	-	-	(47,104)	(47,104)
Balance, December 31, 2013	**37,281,007**	**$ 7,830,163**	**$ 1,502,612**	**$ (9,523,724)**	**$ (190,949)**
Net loss and comprehensive loss	-	-	-	(876,195)	(876,195)
Units issued for cash (Note 6)	5,610,765	263,593	-	-	263,593
Shares issued to settle debt (Note 6)	2,584,613	118,156	-	-	118,156
Allocated to warrants (Note 6)	-	(127,612)	-	-	(127,612)
Stock-based compensation (Note 7)	-	-	67,437	-	67,437
Balance, June 30, 2014	**45,476,385**	**$ 8,084,300**	**$ 1,570,049**	**$(10,399,919)**	**$ (745,570)**

Montana Gold Mining Company Inc.

Interim Consolidated Statements of Cash Flow
(Expressed in United States Dollars)
For the Six Months Ended June 30,
(unaudited)

	2014	2013
Cash provided by (used in)		
Operations		
Net earnings (loss)	**$ (876,195)**	$ 92,799
Items not affecting cash		
Loss (gain) on revaluation of foreign currency warrants	**618,606**	(51,541)
Reversal of management fees payable	**-**	(193,854)
Reversal of accounts payable	**-**	(96,909)
Gain on debt settlement	**(35,447)**	-
Stock-based compensation	**67,437**	-
	(225,599)	(249,505)
Net changes in non-cash working capital		
HST receivable	**3,456**	2,602
Prepaid expenses	**-**	(5,118)
Accounts payable and accrued liabilities	**38,200**	108,250
	(183,943)	(143,771)
Investing		
Mining claims and deferred exploration expenditures	**(13,601)**	(1,059)
Financing		
Proceeds from share issuances, net	**263,593**	148,558
Net change in cash	**66,049**	3,728
Cash, beginning of period	**17,744**	16,273
Cash, end of period	**$ 83,793**	$ 20,001

1. NATURE OF OPERATIONS AND GOING CONCERN

Montana Gold Mining Company Inc. ("the Company" or "Montana") was incorporated under the Ontario Business Corporations Act on December 21, 2000. The Company has three wholly-owned subsidiary corporations, Montana Gold Subsidiary Corporation, a United States corporation, Celerity Mineral Corporation, a Canadian corporation and Celerity Subsidiary Corporation, a United States corporation.

The Company is engaged in the business of locating and exploring mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The head office and principal address of the Company is 380 Wellington Street, 6th Floor, London City Centre, Tower B, London, Ontario, N6A 5B5.

While these unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business, there are material uncertainties related to adverse conditions and events that cast significant doubt on the Company's ability to continue as a going concern.

During the period ended June 30, 2014, the Company incurred a net loss of $876,195 (December 31, 2013 - $100,446) and, as of that date, the Company had accumulated a deficit of $10,399,919 (December 31, 2013 - $9,523,724), a working capital deficiency of $336,251 (December 31, 2013 - $514,247) and negative cash flows from operations of $183,943 (December 31, 2013 - $283,570). These factors create material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern.

As is common with exploration companies, the Company is dependent upon obtaining necessary equity financing from time to time to finance its on-going and planned exploration activities and to cover administrative costs.

Recovery of the carrying value of the mining claims and the related deferred exploration expenditures are dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to secure and maintain title and beneficial interest in the properties, entering agreements with others to explore and develop the properties and upon future profitable production or proceeds from disposition of such properties.

These unaudited condensed interim consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments would be material.

(Expressed in United States Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These unaudited condensed interim consolidated financial statements present the Company's financial results of operations and financial position under IFRS as at and for the six and three month periods ended June 30, 2014. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2012, prepared in accordance with IFRS. The accounting policies adopted in these unaudited condensed interim consolidated financial statements are consistent with those disclosed in the Company's audited financial statement for the year ended December 31, 2013. Refer to these audited financial statements for significant accounting policies and future changes in accounting policies which remained unchanged as at June 30, 2014.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on August 28, 2014.

Basis of Consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Celerity Mineral Corporation (Canada), Celerity Subsidiary Corporation (United States) and Montana Gold Subsidiary Corporation (United States). The functional currency and presentation currency of each entity is the United States dollar. The financial statements of the subsidiaries are included in the unaudited condensed interim consolidated financial statements from the date that control commences until the date that control ceases.

All transactions and balances between the Company and its subsidiaries are eliminated on consolidation.

3. MINING CLAIMS AND DEFERRED EXPLORATION COSTS

	December 31, 2013	Additions	Write-offs	June 30, 2014
Silver Bell St. Lawrence Claims, MT [a]	$ 424,323	$ 1,138	$ -	$ 425,461
Golden Trail Claims, NV [b]	66,176	12,463	-	78,639
	$ 490,499	$ 13,601	$ -	$ 504,100

(Expressed in United States Dollars)

3. MINERAL CLAIMS AND DEFERRED EXPLORATION COSTS (Cont'd)

	December 31, 2012	Additions	Write-offs	December 31, 2013
Silver Bell St. Lawrence Claims, MT [a]	$ 416,786	$ 7,537	$ -	$ 424,323
Golden Trail Claims, NV [b]	34,018	32,158	-	66,176
	$ 450,804	$ 39,695	$ -	$ 490,499

(a) Silver Bell St. Lawrence

On September 1, 2011, the Company entered into an agreement to acquire a 100% working interest in the Silver Bell St. Lawrence ("SBSL") property consisting of 10 claims (December 31, 2013 - 10) by paying $85,000 on signing and $85,000 by March 1, 2012, for total consideration of $170,000, by issuing 200,000 common shares of the Company and granting a 2% Net Smelter Royalty to the arms-length vendor. Title to the properties will be registered in the name of the Company after the last $85,000 payment is made, at which time the vendor shall provide to the Company all forms necessary to effect registration in the name of the Company including quit claim deeds. The Company paid $85,000 on September 9, 2011 and issued 200,000 common shares on September 15, 2011. These claims have not yet been transferred to the Company and are being held in trust by the vendor, currently management is working on transferring the title of these claims to Company.

As at June 30, 2014, the Company holds 100% interest in 15 (December 31, 2013 - 15) mining claims adjacent to the northern and eastern boundaries of the SBSL property. These mining claims are called the Roar claims and bring the total size of the SBSL property to approximately 394 acres.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of $155 per claim.

(b) Golden Trail

As at June 30, 2014, the Company holds 100% interest in 16 (December 31, 2013 - 16) contiguous unpatented mining claims in the Elko County region of Nevada totaling approximately 320 acres.

On May 16, 2012, the Company completed an NI43-101 Report on the Golden Trail Property.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of $155 per claim.

(Expressed in United States Dollars)

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a breakdown of the amounts included in accounts payable:

	June 30, 2014	December 31, 2013
Trade payables	**$ 26,174**	$ 55,487
Accrued liabilities:		
Management and director fees	**367,051**	442,959
Audit and accounting	**29,229**	39,410
	$ 422,454	$ 537,856

5. RESTORATION LIABILITIES

As at June 30, 2014, management estimated site restoration costs relating to exploration work completed to date on the Rimrock property, a former property of the Company, to be $22,000 (December 31, 2013 - $22,000) which has been accrued. These costs are estimated by management and approved by the Nevada State Office of the Bureau of Land Management ("BLM"). The Company is required to issue reclamation bonds to cover these estimated restoration costs. The reclamation bonds issued relating to this property is $25,000 (December 31, 2013 - $25,000). The reclamation bonds will be returned to the Company upon the BLM being satisfied with the site restoration work performed. Subsequent to June 30, 2014, the Company received cash proceeds of $25,000 regarding the release of the reclamation bonds on the Rimrock property.

Included in the reclamation bond balance is a bond in the amount of $15,271 (December 31, 2013 - $15,271) for an exploration program on the Golden Trail property for which the site restoration work has been performed. During the year ended December 31, 2012, the BLM released a reclamation bond in the amount of $22,907 to the Company which reduced the reclamation bonds by this amount. However, the Company may be liable for additional amounts if the BLM determines that the site restoration work was deficient and the amount of the bond is not sufficient to cover the cost of the additional work required to fully return the site to its original condition.

(Expressed in United States Dollars)

6. CAPITAL STOCK

Authorized
Unlimited common shares

Issued and outstanding - common shares

	Number of Shares	Value
Balance, December 31, 2012	**30,631,007**	**$ 7,652,666**
Units issued for cash	6,650,000	324,736
Allocated to warrants	-	(147,239)
Balance, December 31, 2013	**37,281,007**	**$ 7,830,163**
Units issued for cash (i), (ii), (iv)	5,610,765	263,593
Shares issued to settle debt (iii)	2,584,613	118,156
Allocated to warrants (i), (ii), (iv)	-	(127,612)
Balance, June 30, 2014	**45,476,385**	**$ 8,084,300**

(i) On March 3, 2014, the Company issued 2,000,000 units with an ascribed value of $0.05 CDN per unit for proceeds of $100,000 CDN ($90,044 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of $0.10 CDN up to March 3, 2017.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

Share price	$0.035 CDN
Expected dividend yield	Nil
Exercise price	$0.10 CDN
Risk free interest rate	1.02%
Expected life	3.0 years
Expected volatility (based on historical prices)	149%

The Company determined the amount relating to the warrants in the unit issuance to be $43,321.

These warrants are not in the Company's functional currency.

(ii) On June 4, 2014, the Company issued 2,300,505 units with an ascribed value of $0.05 CDN per unit for proceeds of $115,025 CDN ($107,581 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of $0.10 CDN up to June 4, 2017.

80,000 of these common shares issued were subscribed for by an officer and a director.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

Share price	$0.070 CDN
Expected dividend yield	Nil
Exercise price	$0.10 CDN
Risk free interest rate	1.06%
Expected life	3.0 years

(Expressed in United States Dollars)

6. CAPITAL STOCK (Cont'd)

Expected volatility (based on historical prices)	155%

The Company determined the amount relating to the warrants in the unit issuance to be $53,534.

These warrants are not in the Company's functional currency.

(iii) On June 4, 2014, the Company issued 2,584,613 common shares to settle debt owing of $153,602 ($168,000 CDN) to officers and directors (2,307,690 common shares) and a consultant (276,923 common shares). These common shares were valued at $0.05 CDN per share resulting in a gain on debt settlement of $35,447.

(iv) On June 28, 2014, the Company issued 1,310,260 units with an ascribed value of $0.05 CDN per unit for proceeds of $65,513 CDN ($65,968 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of $0.10 CDN up to June 28, 2017.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

Share price	$0.075 CDN
Expected dividend yield	Nil
Exercise price	$0.10 CDN
Risk free interest rate	1.09%
Expected life	3.0 years
Expected volatility (based on historical prices)	152%

The Company determined the amount relating to the warrants in the unit issuance to be $30,757.

These warrants are not in the Company's functional currency.

(Expressed in United States Dollars)

7. STOCK OPTIONS AND WARRANTS

(a) Stock Options

The Company has a Stock Option Plan (the "Plan") to provide options for the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 10% of the common shares issued and outstanding (on a non-diluted basis) at any time. The exercise price of options granted under the Stock Option Plan will be determined by the directors, but will be at least equal to the closing trading price for the common shares for the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Directors. The term of any option granted shall not exceed five years. Except as otherwise provided elsewhere in the Stock Option Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. The Company will not provide financial assistance to any optionee in connection with the exercise of options.

The Company issued stock options to acquire common shares as follows:

	June 30, 2014		December 31, 2013	
	Number of Options	**Weighted Average Exercise Price (CDN)**	Number of Options	Weighted Average Exercise Price (CDN)
Outstanding, beginning of period	**2,600,000**	**$0.10**	2,600,000	$0.10
Granted	**1,300,000**	**$0.06**	-	$ -
Outstanding, end of period	**3,900,000**	**$0.09**	2,600,000	$0.10
Exercisable, end of period	**3,810,000**	**$0.09**	2,600,000	$0.10

The Company had the following stock options outstanding at June 30, 2014:

Number of Options	**Exercise Price**	**Expiry Date**
2,600,000	CDN $0.100	May 1, 2017
150,000	CDN $0.050	December 24, 2015
1,150,000	CDN $0.065	May 29, 2019
3,900,000		

(Expressed in United States Dollars)

7. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (Cont'd)

The above options were not included in the computation of diluted net loss per share as they are anti dilutive.

(i) On March 25, 2014, the Company granted 150,000 stock options to a consultant. Each option entitles the holder to purchase one common share at $0.05 CDN per share at any time on or before December 24, 2015. 30,000 options vest upon grant, 30,000 options vest June 25, 2014, 30,000 options vest September 25, 2014, 30,000 options vest December 25, 2014 and 30,000 options vest March 25, 2015.

In the absence of a reliable measurement of the services received, the transaction has been measured at the fair value of the stock options issued. The fair value of these stock options of $4,356 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Stock price	$0.05 CDN
Expected dividend yield	Nil
Exercise price	$0.05 CDN
Risk-free interest rate	1.07%
Expected life	1.75 years
Expected volatility (based on historical prices)	140%

(ii) On May 29, 2014, the Company granted 1,150,000 stock options to directors and officers and a consultant. Each option entitles the holder to purchase one common share at $0.065 CDN per share at any time on or before May 29, 2019.

In the absence of a reliable measurement of the services received from the consultant, the transaction has been measured at the fair value of the stock options issued.

The fair value of these stock options of $63,081 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Stock price	$0.06 CDN
Expected dividend yield	Nil
Exercise price	$0.065 CDN
Risk-free interest rate	1.33%
Expected life	5.0 years
Expected volatility (based on historical prices)	233%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(Expressed in United States Dollars)

7. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants

Warrants denominated in a foreign currency different from the functional currency of the Company meet the definition of a financial liability and accordingly are presented as such on the Company's unaudited condensed interim consolidated statement of financial position and are fair valued at each period end using the Black-Scholes option pricing model.

The following summarizes the change in warrants denominated in a foreign currency:

	June 30, 2014	December 31, 2013
Balance, beginning of period	**$ 185,472**	**$ 18,500**
Fair value of warrants issued - February 20, 2013	-	11,500
Fair value of warrants issued - May 14, 2013	-	3,593
Fair value of warrants issued - December 03, 2013	-	132,146
Fair value of warrants issued warrants extended	-	95,353
Fair value of warrants issued - March 3, 2014 (Note 6(i))	**43,321**	-
Fair value of warrants issued - June 4, 2014 (Note 6(ii))	**53,534**	-
Fair value of warrants issued - June 28, 2014 (Note 6(iii))	**30,757**	-
Fair value adjustment	**618,606**	(75,620)
Balance, end of period	**$ 931,690**	$ 185,472

(i) At June 30, 2014, the fair value of the 21,710,765 warrants outstanding was estimated at $931,690 using the Black-Scholes pricing model with the following weighted average assumptions:

Share price	$0.075 CDN
Expected dividend yield	Nil
Exercise price	$0.10 - $0.20 CDN
Risk free interest rate	1.09%
Weighted average expected life	2.154 years
Weighted average expected volatility (based on historical prices)	149.6%

At June 30, 2014, a loss on revaluation of foreign currency warrants of $618,606 (June 30, 2013 - gain of $51,541) was recognized in the consolidated statement of loss and comprehensive loss.

(Expressed in United States Dollars)

7. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

The Company had the following warrants outstanding at June 30, 2014:

Number of Warrants	Exercise Price (CDN)	Expiry Date
2,800,000	$0.20	January 24, 2016
1,400,000	$0.20	February 8, 2016
2,000,000	$0.20	April 24, 2016
3,250,000	$0.20	June 19, 2016
2,000,000	$0.20	February 20, 2016
1,000,000	$0.20	May 14, 2016
3,650,000	$0.10	December 3, 2016
2,000,000	$0.10	March 3, 2017
2,300,505	$0.10	June 4, 2017
1,310,260	$0.10	June 28, 2017
21,710,765		

8. LOSS PER SHARE

The calculation of basic and diluted loss per share for the period ended June 30, 2014 was based on the loss attributable to common shareholders of $876,195 (June 30, 2013 - earnings of $92,799) and the weighted average number of common shares outstanding of 39,391,639 (June 30, 2013 – 32,343,714).

Diluted loss per share did not include the effect of 3,900,000 stock options and 21,710,765 warrants outstanding as they are anti-dilutive.

9. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

(Expressed in United States Dollars)

9. RELATED PARTY TRANSACTIONS (Cont'd)

Remuneration of Directors and key management of the Company was as follows:

	June 30, 2014	June 30, 2013
Share-based payment [i]	**$ 52,110**	$ -
Management and director fees[ii]	**163,866**	193,728
	$ 215,976	$ 193,728

(i) Fair value of stock options issued to officers and directors.

(ii) Included in office and administrative costs in the consolidated statements of loss and comprehensive loss.

Other related party balances are listed below:

(a) Included in accounts payable and accrued liabilities is approximately $367,051 (December 31, 2013 - $442,959) of amounts owing to directors of the Company for management and director fees.

(b) During the three months ended June 30, 2014, the Company issued 2,307,690 common shares to officers and directors to settle management fees owing of $137,145. These common shares were valued at $0.05 CDN per share resulting in a gain on debt settlement of $31,649.

(c) During the three months ended June 30, 2013, the Company reversed $193,854 of management fees owing to three directors at December 31, 2012, which were included in accounts payable and accrued liabilities.

10. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the period ended June 30, 2014.

11. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities. In particular market risk (composed of currency risk), liquidity risk, fair value risk and credit risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Market Risk

(i) Currency risk

The Company operates internationally and is exposed to foreign exchange risk from the Canadian Dollar. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

As at June 30, 2014 the Company is exposed to currency risk through the following financial assets and liabilities denoted in Canadian dollars:

	June 30, 2014	December 31, 2013
Cash	**$ 79,605**	$ 4,355
Accounts payable and accrued liabilities	**$ 445,490**	$ 549,556

The above balances were translated into US dollars at the period-end rate of $0.9372 (December 31, 2013 - $0.9402) Canadian dollars to every US dollar.

Based on the above net exposures as at June 30, 2014, assuming that all other variables remain constant, a +/- 5% change in the Canadian dollar against the United States dollar would result in an increase/decrease in net loss of approximately $17,000.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at June 30, 2014, the Company has current liabilities of $422,454 (December 31, 2013 - $537,856) due within 12 months and has cash of $83,793 (December 31, 2013 - $17,744) to meet its current obligations. As a result the Company has liquidity risk and is dependent on raising additional capital to fund operations.

11. FINANCIAL RISK MANAGEMENT (Cont'd)

(c) Fair Value Risk

The carrying values of reclamation bonds, accounts payable and accrued liabilities and restoration liabilities approximate fair values due to the relatively short term maturities of these instruments.

(d) Credit Risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash. The Company reduces its credit risk by maintaining its primary bank accounts at large financial institutions.

12. COMMITMENTS

The Company is committed under lease agreements to the payment of amounts totaling $8,688 in 2014 subsequent to June 30, 2014.

13. LITIGATION

On February 15, 2010, the Company was named along with former directors of the Company and served with a claim in The District Court, 150th Judicial District, Bexar County, Texas. This lawsuit was subsequently removed to the U.S. District Court for the Western District of Texas, San Antonio Division. The Plaintiff alleged several past directors of the Company have used trade secrets or confidential information belonging to the Plaintiff for the Company's benefit in violation of laws protecting this type of information. The Plaintiff claimed monetary damages against all of the named Defendants, which include the Company, of $30,000,000.

In February 2012, the Court dismissed all claims against all of the named Defendants, including the Company. In early March, 2012, the Plaintiff filed an appeal and an appeal hearing was held in December 2012. On April 17, 2013, the United States Court of Appeals for the Fifth Circuit issued its opinion affirming the judgement in the court below in favour of all defendants. On May 1, 2013, the appellants filed a Petition for Rehearing. On May 20, 2013 the Petition for Rehearing was denied. While it is possible the appellants could take further action, the Company has not been informed of such action.

14. SUBSEQUENT EVENT

On July 2, 2014 the Company issued 500,000 stock options to directors. Each option entitles the holder to purchase one common share at $0.08 CDN per share at any time on or before July 2, 2019.