CHLORMET TECHNOLOGIES, INC.

(formerly Newton Gold Corp.)

Condensed Interim Financial Statements

For the Six Months Ended June 30, 2014

(Expressed in Canadian Dollars)

(Unaudited)

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(formerly Newton Gold Corp.)

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(Expressed in Canadian Dollars)
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Notice to Readers

Under National Instrument 51-102, Part 4.3(3)(a), if an auditor has not performed a review of the 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 Chlormet Technologies, Inc. (formerly Newton Gold Corp.) for the six months ended June 30, 2014 have been prepared in accordance with International Accounting Standard 34 for Interim Financial Reporting under International Financial Reporting Standards. These condensed interim financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The Company's independent auditors have not performed an audit or review of these condensed interim financial statements.

CHLORMET TECHNOLOGIES, INC.
(formerly Newton Gold Corp.)

Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

As at		June 30 2014		December 31 2013
Assets				
Current				
Cash	$	12,655	$	5,372
Amounts receivable		5,679		4,260
Prepaid expenses		5,150		966
		23,484		10,598
Non-current				
Exploration and evaluation assets (note 4)		255,454		252,848
Investment (note 5)		120,000		-
		375,454		252,848
	$	398,938	$	263,446
Liabilities				
Current				
Accounts payable and accrued liabilities (note 7)	$	184,847	$	176,360
Due to related parties (note 7)		91,262		293,713
Loans payable		-		41,462
		276,109		511,535
Shareholders' Equity				
		11,762,765		11,173,347
Reserves		572,368		103,625
Accumulated deficit		(12,212,304)		(11,525,061)
		122,829		(248,089)
	$	398,938	$	263,446

Nature and continuance of operations (note 1)
Commitments (notes 4, 5, and 7)
Contingent liability (note 8)

These condensed interim financial statements were authorized for issue by the Board of Directors on July 31, 2014. They are signed on the Company's behalf by:

"Yari Nieken" ______________________ Director

"Ian Foreman" ______________________ Director

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

CHLORMET TECHNOLOGIES, INC.
(formerly Newton Gold Corp.)

Condensed Interim Statements of Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

	For the three months ended		For the six months ended	
	June 30 2014	June 30 2013	**June 30 2014**	June 30 2013
Administrative expenses				
Accounting and auditing (note 7)	**$ 9,260**	$ 8,666	**$ 14,260**	$ 13,666
Administration fees (note 7)	**105**	772	**245**	1,684
Consulting and management (note 7)	**52,762**	45,000	**154,762**	104,750
Director fees (note 7)	**-**	1,600	**-**	1,600
Insurance	**-**	-	**-**	1,725
Investor communications	**1,491**	773	**1,907**	1,373
Legal	**5,655**	3,543	**59,550**	8,729
Office and sundry (note 7)	**3,841**	5,519	**11,274**	9,846
Regulatory and transfer agent fees	**20,736**	11,265	**26,965**	13,055
Share-based compensation (notes 6(d) and 7)	**198,336**	3,865	**418,586**	5,109
Travel and business development	**2,050**	1,377	**7,596**	4,278
Loss before other items	**(294,236)**	(82,380)	**(695,145)**	(165,815)
Other revenue	**277**	-	**277**	-
Net and comprehensive loss for the period	**$ (293,959)**	$ (82,380)	**$ (694,868)**	$ (165,815)
Basic and diluted loss per share	**$ (0.01)**	$ (0.01)	**$ (0.04)**	$ (0.02)
Weighted average number of shares outstanding	**20,858,574**	7,602,574	**15,805,182**	7,602,475

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

CHLORMET TECHNOLOGIES, INC.
(formerly Newton Gold Corp.)

Condensed Interim Statements of Changes in Equity
(Expressed in Canadian Dollars)
(Unaudited)

				Reserves				
	Number of Shares	Share Capital	Share Subscriptions Receivable	Share-Based Payment Reserve	Warrant Reserve	Total	Deficit	Total Equity
Balance at December 31, 2013	7,602,574	$ 11,173,347	$ -	$ 103,625	$ -	$ 103,625	$ (11,525,061)	$ (248,089)
Private placement	13,256,000	662,800	-	-	-	-	-	662,800
Share issuance costs - cash	-	(15,600)	-	-	-	-	-	(15,600)
Share issuance costs - agent warrants	-	(57,782)	-	-	57,782	57,782	-	-
Fair value of stock options cancelled/expired	-	-	-	(7,625)	-	(7,625)	7,625	-
Share-based compensation	-	-	-	418,586	-	418,586	-	418,586
Loss for the period	-	-	-	-	-	-	(694,868)	(694,868)
Balance at June 30, 2014	**20,858,574**	**$ 11,762,765**	**$ -**	**$ 514,586**	**$ 57,782**	**$ 572,368**	**$ (12,212,304)**	**$ 122,829**
Balance at December 31, 2012	7,602,574	$ 11,173,347	$ (9,000)	$ 305,848	$ 192,701	$ 498,549	$ (9,940,098)	$ 1,722,798
Share subscription received	-	-	9,000	-	-	-	-	9,000
Fair value of warrants expired	-	-	-	-	(36,528)	(36,528)	36,528	-
Share-based compensation	-	-	-	5,109	-	5,109	-	5,109
Loss for the period	-	-	-	-	-	-	(165,815)	(165,815)
Balance at June 30, 2013	7,602,574	$ 11,173,347	$ -	$ 310,957	$ 156,173	$ 467,130	$ (10,069,385)	$ 1,571,092

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

CHLORMET TECHNOLOGIES, INC.
(formerly Newton Gold Corp.)

Condensed Interim Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

	For the three months ended		For the six months ended	
	June 30 2014	June 30 2013	**June 30 2014**	June 30 2013
Cash provided by (used for)				
Operating activities				
Net loss for the period	**$ (293,959)**	$ (82,380)	**$ (694,868)**	$ (165,815)
Add items not affecting cash				
Accrued interest	**-**	565	**-**	565
Share-based compensation	**198,336**	3,865	**418,586**	5,109
	(95,623)	(77,950)	**(276,282)**	(160,141)
Net change in non-cash working capital	**(54,436)**	22,423	**2,947**	522
	(150,059)	(55,527)	**(273,335)**	(159,619)
Financing activities				
Due to related parties	**64,882**	24,869	**(202,514)**	58,447
Issuance of common shares, net of share issuance costs	**15,000**	-	**647,200**	-
Loan payable	**(31,462)**	20,000	**(41,462)**	20,000
Share subscription received	**-**	-	**-**	9,000
	48,420	44,869	**403,224**	87,447
Investing activity				
Investment in AAA Heidelberg Inc.	**-**	-	**(120,000)**	-
Expenditures on exploration and evaluation assets	**-**	-	**(2,606)**	(4,225)
	-	-	**(122,606)**	(4,225)
Net increase (decrease) in cash	**(101,639)**	(10,658)	**7,283**	(76,397)
Cash, beginning of period	**114,294**	11,068	**5,372**	76,807
Cash, end of period	**$ 12,655**	$ 410	**$ 12,655**	$ 410

Supplemental cash flow disclosure (note 9)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Chlormet Technologies, Inc. (formerly Newton Gold Corp.) ("Chlormet" or the "Company") was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia). On February 9, 2011, the name of the Company was changed from New High Ridge Resources Inc. to Newton Gold Corp. and on November 7, 2013 to Chlormet Technologies, Inc. Until June 18, 2014, the Company was listed on the TSX Venture Exchange under the symbol "CMT". Effective June 19, 2014 the Company is listed on the Canadian Securities Exchange ("CSE" or the "Exchange") under the symbol "PUF".

Effective November 7, 2013, when the Company's name was changed from Newton Gold Corp. to Chlormet Technologies, Inc., the Company's issued and outstanding shares were consolidated on a five (5) old for one (1) new basis. All share capital figures reflect the share consolidation.

The Company is an exploration stage company with respect to its exploration and evaluation assets. Based on the information available to date, the Company has not yet determined whether its exploration and evaluation assets contain economically recoverable reserves. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development, and upon future profitable production or disposition thereof.

On March 26, 2014, the Company acquired a 16.5% interest in AAA Heidelberg Inc., a private company located in Ontario, for $120,000. The Company has signed a Letter of Intent ("LOI") with the principals of AAA Heidelberg Inc. whereby the Company has been granted the exclusive option to acquire the balance of the 83.5% interest subject to certain conditions including the grant of a Marihuana for Medical Purposes Regulations ("MMPR") license and by issuing up to 16,000,000 common shares of the Company subject to Canadian Securities Exchange escrow policies.

On June 18, 2014, the Company signed a Letter of Intent with Babcock Bench Farms LLC ("Babcock") with regards to the development and operation of a 21,000 square foot Marijuana Production and Processing Facility in the State of Washington under Babcock's state approved Tier 3 Marijuana Production and Process License under Washington State Initiative 502. The Company has until December 15, 2014 to complete its due diligence and finalize the terms of the Definitive Agreement.

The Company has a working capital deficit of $252,625 (December 31, 2013 - $500,937), incurred a net loss of $694,868 (June 30, 2013 - $165,815) during the six months ended June 30, 2014, and had an accumulated deficit of $12,212,304 (December 31, 2013 - $11,525,061) as at June 30, 2014.

These condensed interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Further discussion of liquidity risk has been disclosed in Note 10.

1. NATURE AND CONTINUANCE OF OPERATIONS (continued)

The Company does not generate cash flow from operations to fund its exploration activities, and has therefore relied upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its operations and exploration activities to the extent such instruments are issuable under terms acceptable to the Company. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. If the Company is unable to secure additional financing, repay liabilities as they come due, negotiate suitable joint venture agreements, and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the statement of financial position classifications used. These condensed interim financial statements do not include any adjustments relating to the recovery of assets and classification of assets and liabilities that may arise should the Company be unable to continue as a going concern.

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

The Company's corporate office is located at Suite 350, 409 Granville Street, Vancouver, British Columbia V6C 1T2.

2. BASIS OF PREPARATION

a) Basis of preparation

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS34") using accounting policies consistent with International Financial Reporting Standards ("IFRS").

These condensed interim financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit and loss, which are measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

b) Presentation and functional currency

The presentation and functional currency of the Company is the Canadian dollar.

c) Significant accounting judgments and estimates

The preparation of these condensed interim financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of these condensed interim financial statements also requires management to exercise judgment in the process of applying the accounting policies.

2. BASIS OF PREPARATION (continued)

c) Significant accounting judgments and estimates (continued)

i) Critical accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year:

(a) Impairment of exploration and evaluation assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the asset and a suitable discount rate in order to calculate present value. No impairment of exploration and evaluation assets have been recorded for the six months ended June 30, 2014 (June 30, 2013 - $Nil).

(b) Share-based compensation

Management is required to make certain estimates when determining the fair value of stock options awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's statement of comprehensive loss. For the six months ended June 30, 2014, the Company recognized $418,586 (June 30, 2013 - $5,109) as share-based compensation expense.

ii) Critical judgments used in applying accounting policies

In the preparation of these condensed interim financial statements, management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the condensed interim financial statements.

(a) Exploration and evaluation assets

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its exploration and evaluation assets. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from exploration and evaluation assets and subject to different accounting treatment. As at June 30, 2014 and December 31, 2013, management had determined that no reclassification of exploration and evaluation assets was required.

(b) Income taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the annual financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial assets and financial liabilities are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. The Company does not have any derivative financial instruments.

i) Financial assets

The Company classifies its financial assets into categories at initial recognition, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value, with changes in fair value recognized in profit or loss. The Company has not classified any financial assets as fair value through profit and loss.

(b) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Cash is classified as loans and receivables.

(c) Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss. The Company has not classified any financial assets as held-to-maturity investments.

(d) Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income or loss ("OCI"). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from OCI and recognized in profit or loss. The Company has not classified any financial assets as available-for-sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

i) Financial assets (continued)

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value, with changes in fair value recognized in the statement of comprehensive loss. The Company has not classified any financial liabilities as fair value through profit and loss.

(b) Other financial liabilities

This category includes accounts payable and accrued liabilities, amounts due to related parties, and loans payable which are recognized at amortized cost.

b) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position is comprised of cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash and subject to insignificant interest or credit risk.

c) Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in mineral properties; accordingly, it follows the practice of capitalizing all costs, once it has the legal right to explore, relating to the acquisition of, exploration for, and development of mineral claims, and crediting all proceeds received against the cost of the related claims. Such costs include, but are not exclusive to geological, geophysical studies, exploratory drilling, and sampling.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Exploration and evaluation assets (continued)

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves.

The aggregate costs related to abandoned mineral claims are charged to net income (loss) at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to an exploration and evaluation asset is subsequently reversed if new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes net income (loss) costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount and the Company recognizes this as a gain on sale of mineral rights.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditures are not expected to be recovered, they will be charged to profit or loss.

d) Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Impairment (continued)

Where 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, 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. A reversal of an impairment loss is recognized immediately in profit or loss.

e) Foreign currency translation

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency gains and losses are reported on a net basis and included in profit or loss.

f) Joint venture accounting

Certain of the Company's exploration and evaluation asset activities are conducted with others; accordingly, the accounts reflect only the Company's proportionate interest in such activities.

g) Share capital

i) Common shares

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

ii) Equity units

Proceeds received on the issuance of units, comprised of common shares and warrants, are allocated on the residual value method; proceeds are allocated to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the reserve for warrants.

iii) Flow-through shares

The Company will from time to time issue flow-through common shares to finance its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax benefit of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into: i) share capital, equal to the market value of the shares; ii) a flow-through share premium liability, equal to the estimated premium, if any, investors pay for the flow-through feature; and iii) reserve for warrants, equal to the remaining proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Share capital (continued)

iii) Flow-through shares (continued)

When qualifying expenses are incurred, the Company recognizes a deferred tax liability and deferred tax expense for the value of the tax benefit renounced to the shareholders. The Company also derecognizes the liability on the flow-through share premium, as other income.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian exploration expenses (as defined in the Income Tax Act). The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as unspent commitment/other liability (liability on flow-through share premium).

h) Share-based payment transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. 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.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where share options are granted to non-employees, fair value is measured at grant date at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

i) Equity reserves

Where share options or warrants expire or are cancelled, the fair value previously recognized is transferred from equity reserve to accumulated deficit.

j) Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Income taxes (continued)

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

k) Rehabilitation provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

m) Segment reporting

The Company operates in a single reportable segment being the acquisition, exploration, and development of exploration and evaluation assets.

n) New accounting standards and interpretations not yet adopted

The following accounting pronouncement has been released but has not yet been adopted by the Company:

i) IFRS 9 Financial Instruments

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 *Financial Instruments* (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is tentatively effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities.

Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company’s financial statements.

(Expressed in Canadian Dollars)

4. EXPLORATION AND EVALUATION ASSETS

The Company had accumulated the following acquisition and exploration expenditures:

		Chuchi		Newton Hill		Sibley Road		Total
Balance at December 31, 2012	$	61,261	$	5,000	$	40,000	$	106,261
Write-off of exploration and evaluation assets		-		-		(40,000)		(40,000)
Balance at December 31, 2013 and June 30, 2014	**$**	**61,261**	**$**	**5,000**	**$**	**-**	**$**	**66,261**
Balance at December 31, 2012	$	146,587	$	1,580,486	$	-	$	1,727,073
Advanced royalty payments		40,000		-		-		40,000
Consulting		-		-		4,225		4,225
Write-off of exploration and evaluation assets		-		(1,580,486)		(4,225)		(1,584,711)
Balance at December 31, 2013	$	186,587	$	-	$	-	$	186,587
Consulting		2,606		-		-		2,606
Balance at June 30, 2014	**$**	**189,193**	**$**	**-**	**$**	**-**	**$**	**189,193**
At December 31, 2013	$	247,848	$	5,000	$	-	$	252,848
At June 30, 2014	**$**	**250,454**	**$**	**5,000**	**$**	**-**	**$**	**255,454**

a) Chuchi Property, British Columbia

The Company owns a 100% interest in certain mineral claims located in the Omineca Mining Division of British Columbia, referred to as the Chuchi Property.

In December 2008 the Company wrote down the recorded cost of the property to $Nil. As at June 30, 2014, mineral property interests represent accumulated costs incurred on the property since January 1, 2009.

4. EXPLORATION AND EVALUATION ASSETS (continued)

a) Chuchi Property, British Columbia (continued)

On March 17, 2014, the Company announced that it received the decision in the arbitration hearings between the Company and the vendors of the Chuchi property, located in northern British Columbia. The arbitration stemmed from the company's allowing a number of claims to lapse in 2007 and subsequently acquiring certain claims covering a portion of the area of the lapsed claims at a later date from a third party. The arbitrator in the case has ruled in favour of the Company's claim that the 3% net smelter royalty that was attached to the original claims (that were dropped) does not apply to the disputed ground. As such, the vendors of the property own a 3% NSR on only the five core claims to the property, which cover only 1,695.94 hectares of the total 5,365.24 hectares that constitute the Chuchi property. In addition, the vendors' claim for damages for breach of contract by reason of the forfeiture of mineral claims acquired under the agreement was dismissed, and the vendors must immediately remove the notice to third parties that they had previously filed with the Mining Recorder's Office on the records of the mineral claims. The Company must pay the vendors a total of $40,351 (representing the 2012 and 2013 advance royalty payments plus prejudgment interest) which was paid on June 27, 2014, and the Company is also required to continue to pay to the vendors an advance royalty payment in the amount of $20,000 per year on or before October 25 in each subsequent year that the Company holds any interest in the five core mineral claims.

b) Newton Property, British Columbia

On August 12, 2009, the Company entered into an agreement with Amarc Resources Ltd. (“Amarc”) by which Amarc was granted an option to acquire an 80% interest in the Newton property. Under the terms of the agreement, Amarc paid $60,000 to the underlying Newton property owners and agreed to expend a total of $4,940,000 on the property in exploration expenditures over seven years.

Amarc earned an 80% interest in the Newton property and outlying area of interest under the option agreement by funding $5,000,000 in exploration activities. On May 16, 2011 the Company and Amarc entered into a Joint Venture Agreement to further explore the Newton property.

The Company held a 20% participating interest in certain mineral claims located in the Clinton Mining Division of British Columbia, referred to as the Newton Property. Certain claims within the property were subject to a 2% NSR. The NSR could have been purchased at any time by the Company for $2,000,000. Under the agreement with Amarc Resources Ltd. (“Amarc”) outlined below, Amarc could cause the Company to exercise its option to purchase the NSR and the Company would be required to pay its proportionate share of the purchase price, namely $400,000 to retain its 20% residual interest in the royalty. If the Company’s interest in the Joint Venture is reduced to 10%, or less, then the Company’s interest will be converted to a 5% net profit interest.

Effective May 22, 2012, the Company exercised its right to convert its 20% participating interest to a 5% net profit interest in the Newton Joint Venture. As such, the Company has no ongoing financial obligations regarding this property.

As at June 30, 2014, the Company had advanced $1,585,486 (December 31, 2013 – $1,585,486) to Amarc Resources Ltd., of which $1,580,486 (December 31, 2013 - $1,580,486) was utilized for exploration expenditures and was written down during the year ended December 31, 2013.

4. EXPLORATION AND EVALUATION ASSETS (continued)

b) Newton Property, British Columbia (continued)

As at June 30, 2014, acquisition costs of $5,000 (December 31, 2013 - $5,000) remain capitalized as exploration and evaluation assets.

c) Sibley Road Property, Nova Scotia

On October 11, 2012, the Company signed the Letter of Intent to acquire an option to purchase up to a 100% interest in the Sibley Road property located in Halifax County, Nova Scotia.

The Company agreed to a two stage option. To exercise the First Option and earn a 50% interest in the property, Chlormet would pay the vendor $150,000 and incur a total of $12,000,000 in expenditures within four years as follows:

- pay $40,000 (paid) on signing of the Letter of Intent;
- pay $110,000 within 24 hours of receiving the conditional acceptance of the agreement by the TSX Venture Exchange;
- incur $2,000,000 in expenditures by the first anniversary date of the agreement for Phase I exploration work;
- incur a further $3,000,000 in expenditures by the second anniversary date of the agreement for Phase II exploration work;
- incur a further $3,000,000 in expenditures by the third anniversary date of the agreement for Phase III exploration work; and
- incur a further $4,000,000 in expenditures by the fourth anniversary date of the agreement for Phase IV exploration work.

After exercising the First Option, the Company would have 90 days to deliver notice of its intention to exercise the Second Option. In order to exercise the Second Option and earn an undivided 100% interest in the property, the Company would, within two business days of delivering the Second Option Notice, issue common shares to the Optionor with a value of $12,000,000 at a price per common share equal to the volume weighted average closing price over the 20 trading days preceding the delivery of the Second Option Notice.

On August 26, 2013, the Company announced that it had dropped the option for the Sibley Road property. During the year ended December 31, 2013, the Company wrote off the accumulated costs for this property of $44,225.

d) Pugu Hills Property, Tanzania

On June 6, 2013, the Company signed the Letter of Intent to acquire an option to purchase up to 100% of the Pugu Hills property located in Tanzania.

4. EXPLORATION AND EVALUATION ASSETS (continued)

d) Pugu Hills Property, Tanzania (continued)

Under the Letter of Intent, the Company had the right to acquire a 100% undivided interest in the property in two stages with Stage 1 to earn an initial 65% interest and Stage 2 to earn the remaining 35%. To exercise Stage 1 of the Option and earn a 65% interest in the property, Chlormet was required to pay the vendor $250,000 and issue 3.5 million shares over an eighteen month period. To exercise Stage 2 of the Option to acquire the remaining 35% interest in the property Chlormet was required to pay the vendor an additional $125,000 within 90 days of the successful demonstration that the carbo-chlorination pilot plant successfully produces 99.9% pure aluminum chloride and issue an additional 3.5 million shares.

Upon the completion of 100% of the option for a 100% undivided interest in the property, there was a 3% NSR on the property that would not have a buyout or fixed price. The option agreement was subject to Exchange approval.

On January 20, 2014, the Company announced it would not be finalizing the agreement regarding the Pugu Hills, Tanzania property. At that time, the Company had advanced $Nil (December 31, 2013 - $Nil) towards this acquisition.

5. INVESTMENTS

a) AAA Heidelberg Inc., Ontario

On March 26, 2014, the Company acquired a 16.5% interest in AAA Heidelberg Inc., a private company located in Ontario, for $120,000. The Company has signed a Letter of Intent with the principals of AAA Heidelberg Inc. whereby the Company has been granted the exclusive option to acquire the balance of the 83.5% interest subject to certain conditions including the grant of a Marihuana for Medical Purposes Regulations (“MMPR”) license and by issuing up to 16,000,000 common shares of the Company subject to Canadian Securities Exchange escrow policies.

b) Babcock Bench Farms LLC, Washington

On June 18, 2014, the Company signed a Letter of Intent with Babcock Bench Farms LLC (“Babcock”) with regards to the development and operation of a 21,000 square foot Marijuana Production and Processing Facility in the State of Washington under Babcock’s state approved Tier 3 Marijuana Production and Process License under Washington State Initiative 502. The Company has until December 15, 2014 to complete its due diligence and finalize the terms of the Definitive Agreement.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value

Issued:

	Number		Issue Price		Amount
Balance at December 31, 2012 and 2013	7,602,574	$	-	$	11,173,347
Private placement	13,256,000		0.05		662,800
Share issuance costs - cash	-		-		(15,600)
Share issuance costs - agent warrants	-		-		(57,782)
Balance at June 30, 2014	**20,858,574**	**$**	**-**	**$**	**11,762,765**

On March 10, 2014, the Company issued 13,256,000 units at $0.05 per unit for gross proceeds of $662,800. Each unit consists of one common share and one share purchase warrant of the Company. Each warrant is exercisable to purchase one common share of the Company until September 10, 2015 at $0.075 per share. The full issue price was allocated to the common shares. Finders' fees were paid in the amount of $15,600 along with the issuance of 312,000 agent warrants. Each agent warrant is exercisable to purchase one common share of the Company until September 10, 2015 at $0.075 per share. These agent warrants have a fair value, calculated using the Black-Scholes option pricing model, of $57,782 or $0.19 per option, assuming an expected life of one and a half years, a risk-free interest rate of 1.04%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 251%.

b) Warrants outstanding

	Number of Warrants		Weighted Average Exercise Price
Balance at December 31, 2012	4,478,720	$	1.250
Warrants expired	(3,226,720)		1.170
Balance at December 31, 2013	1,252,000		1.600
Warrants expired	(252,000)		2.000
Warrants issued	13,256,000		0.075
Balance at June 30, 2014	**14,256,000**	**$**	**0.175**

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

b) Warrants outstanding (continued)

Expiry Date	Remaining Life (Years)	Number of Warrants		Exercise Price
January 28, 2015 [1]	0.58	1,000,000	$	1.500
September 10, 2015	1.21	13,256,000	$	0.075
		14,256,000	**$**	**0.175**

(1) On December 14, 2012 the TSX Venture Exchange consented to the extension date of 1,000,000 warrants that originally expired on January 28, 2013 to January 28, 2015.

c) Agent warrants outstanding

	Number of Agent Warrants		Weighted Average Exercise Price
Balance at December 31, 2012	136,070	$	0.800
Agent warrants expired	(136,070)		0.800
Balance at December 31, 2013	-		-
Agent warrants issued	312,000		0.075
Balance at June 30, 2014	**312,000**	**$**	**0.075**

Expiry Date	Remaining Life (Years)	Number of Warrants		Exercise Price
September 10, 2015	1.21	312,000	$	0.075

d) Stock options outstanding

On September 5, 2013, the Company's 2013 Share Option Plan was approved. Under this plan, the Company may grant options to directors, officers, employees, and consultants, provided that the maximum number of options that are outstanding at any time shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less applicable discount. The options may be granted for a maximum of ten years and vesting is determined by the Board of Directors.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

d) Stock options outstanding (continued)

	Number of Options		Weighted Average Exercise Price
Balance at December 31, 2012	330,000	$	0.900
Options cancelled	(170,000)	$	0.970
Options granted	130,000	$	0.500
Balance at December 31, 2013	290,000	$	0.710
Options cancelled/expired	(130,000)	$	0.500
Options granted	2,300,000	$	0.200
Balance at June 30, 2014	**2,460,000**	**$**	**0.240**

Grant Date	Expiry Date	Number of Options Outstanding and Exercisable		Exercise Price
January 4, 2011	January 4, 2016	160,000	$	0.875
March 12, 2014	March 11, 2019	1,500,000		0.160
June 25, 2014	June 24, 2019	800,000		0.270
		2,460,000	**$**	**0.240**

On January 8, 2013, 50,000 stock options were granted to a director of the Company to acquire 50,000 shares of the Company at an exercise price of $0.50 per share for a period of one year. These options have a fair value, calculated using the Black-Scholes option pricing model, of $1,244 or $0.025 per option, assuming an expected life of one year, a risk-free interest rate of 1.17%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 161%.

On January 16, 2013, 80,000 stock options were granted to the President of the Company to acquire 80,000 shares of the Company at an exercise price of $0.50 per share for a period of three years. These options have a fair value, calculated using the Black-Scholes option pricing model, of $6,381 or $0.08 per option, assuming an expected life of three years, a risk-free interest rate of 1.24%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 124%.

On March 12, 2014, the Company granted 1,500,000 stock options to certain directors, officers, and consultants of the Company to acquire 1,500,000 shares of the Company at an exercise price of $0.16 per share, with an expiry date of March 11, 2019. These options have a fair value, calculated using the Black-Scholes option pricing model, of $220,250 or $0.15 per option, assuming an expected life of five years, a risk-free interest rate of 1.64%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 154%.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

d) Stock options outstanding (continued)

On June 25, 2014, the Company granted 800,000 stock options to certain officers and consultants of the Company to acquire 800,000 shares of the Company at an exercise price of $0.27 per share, with an expiry date of June 24, 2019. These options have a fair value, calculated using the Black-Scholes option pricing model, of $198,336 or $0.25 per option, assuming an expected life of five years, a risk-free interest rate of 1.57%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 154%.

e) Agent options outstanding

	Number of Agent Options	Weighted Average Exercise Price
Balance at December 31, 2012	51,200	$ 1.250
Agent options expired	(51,200)	$ 1.250
Balance at December 31, 2013 and June 30, 2014	**-**	**$ -**

7. RELATED PARTY TRANSACTIONS

The Company has identified the directors and senior officers as key management personnel. The following table lists the compensation costs paid directly or to companies controlled by key management personnel for the six months ended June 30, 2014 and 2013:

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS (continued)

	Accounting	Administration Fees	Consulting	Director Fees	Rent	Share-Based Compensation	June 30, 2014 Total
Chris Hornung	$ -	$ -	$ -	$ -	$ -	$ 36,700	$ 36,700
Foremost Geological Consulting	-	-	10,000	-	-	-	10,000
Foremost Management Services Inc.	-	245	30,000	-	5,714	73,400	109,359
Paradigm Shift Consulting	-	-	19,500	-	-	36,700	56,200
T. St. Denis, Inc.	7,950	-	-	-	-	22,020	29,970
Timeline Filing Services Ltd.	-	-	3,262	-	-	12,395	15,657
	$ 7,950	**$ 245**	**$ 62,762**	**$ -**	**$ 5,714**	**$ 181,215**	**$ 257,886**

	Accounting	Administration Fees	Consulting		Rent	Share-Based Compensation	June 30, 2013 Total
Foremost Geological Consulting	$ -	$ -	$ 30,000	$ -	$ -	$ -	$ 30,000
Foremost Management Services Inc.	-	1,684	-	-	-	-	1,684
Ian Flint	-	-	20,750	-	-	3,865	24,615
McLeary Capital Management, Inc.	-	-	39,000	-	-	-	39,000
T. St. Denis, Inc.	9,980	-		-	-	-	9,980
Timeline Filing Services Ltd.	-	-	3,000	-	-	-	3,000
Yari Nieken	-	-	12,000	1,600	-	1,244	14,844
	$ 9,980	$ 1,684	$ 104,750	$ 1,600	$ -	$ 5,109	$ 123,123

Chris Hornung is a director of the Company. Mr. Hornung was granted 250,000 stock options on March 12, 2014 with an exercise price of $0.16, an expiry date of March 11, 2019, and a fair value of $36,700.

On January 28, 2011 the Company entered into an indefinite term contract with Foremost Geological Consulting (the “consultant”), a business owned by a director of the Company, Ian Foreman. The agreement provides for the consultant to continue to act as primary technical consultant and a director of the Company. Effective January 1, 2013, a monthly consulting fee of $5,000 is payable to the consultant. The contract may be cancelled by either party on 30 days written notice and, if cancelled by the Company, by payment of an amount equivalent to two years annual salary. On termination of the contract the consultant will be immediately retained by the Company as a non-paid advisor/consultant to the Company until January 5, 2016 or for such time as the consultant still holds unexercised stock options in the Company. On exercise of the consultant’s options, the relationship between the consultant and the Company will cease. On March 1, 2014, this agreement was terminated and the termination clause was waived. At June 30, 2014, $42,945 (December 31, 2013 - $87,570) due to Foremost Geological Consulting was included in the amount due to related parties.

Effective January 1, 2013, the Company entered into an agreement with Foremost Management Services Inc., a company owned jointly by a director and a former director of the Company, Ian Foreman and Mark McLeary respectively. The agreement provides for Foremost Management Services Inc. to earn an administration fee calculated as 10% of all incurred monthly expenses in exchange for managing the affairs of the Company. Effective October 1, 2013, the agreement was amended to include a sublease agreement for $500 per month representing rent for one office. On March 1, 2014, the Company amended the sublease agreement to $1,000 per month, inclusive of the goods and services tax, effective October 1, 2013. On March 1, 2014, the Company entered into a Management

7. RELATED PARTY TRANSACTIONS (continued)

Consulting Services Agreement with Foremost Management Services Ltd. The agreement provides for Foremost Management Services Inc. to provide management consulting services to the Company for a one year period and then on a month to month basis thereafter. The contract may be cancelled by either party after the first year on 30 days written notice and, if cancelled by the Company, by payment of an amount equivalent to one year's annual fees. In the event the management consultant breaches the terms of the agreement, no notice is required by the Company. Upon termination of the contract, the management consultant will be immediately retained by the Company as a non-paid advisor/consultant to the Company until such time as the management consultant no longer holds unexercised stock options in the Company. The options will not be cancelled or have an expiry date upon termination. On exercise of the management consultant's options, the relationship between the consultant and the Company will cease. A monthly consulting fee of $7,500 is payable along with the issuance of 500,000 stock options in the Company. These options were granted on March 12, 2014 at an exercise price of $0.16 per share, with an expiry date of March 11, 2019, and a fair value of $73,400. At June 30, 2014, $19,013 (December 31, 2013 - $2,958) due to Foremost Management Services Inc. was included in the amount due to related parties.

On April 1, 2014, the Company entered into a Management Consulting Services Agreement with Paradigm Shift Consulting (the "consultant"), a private business owned by Yari Nieken. The consultant acts as the Interim President and Chief Executive Officer and a director of the Company. A monthly consulting fee of $6,500 is payable to the consultant plus $200 per day when required to travel from Vancouver, British Columbia. The contract is on a month-to-month basis until such time that the agreement is replaced within the subsequent six months or as soon as "interim" is removed from the title. The agreement may be cancelled by either party on 30 days written notice. On termination of the contract the consultant will be immediately retained by the Company as a non-paid advisor/consultant to the Company until such time as the consultant still holds unexercised stock options in the Company. On exercise of the consultant's options, the relationship between the consultant and the Company will cease. Mr. Nieken was granted 250,000 stock options on March 12, 2014 with an exercise price of $0.16, an expiry date of March 11, 2019, and a fair value of $36,700. At June 30, 2014, $12,850 (December 31, 2013 - $Nil) due to Paradigm Shift Consulting was included in the amount due to related parties. At June 30, 2014, $330 (December 31, 2013 - $721) due to Mr. Nieken was included in the amount due to related parties.

T. St. Denis, Inc. is a private accounting firm owned by the current Chief Financial Officer, Tracey A. St. Denis. T. St. Denis, Inc. provides accounting services to the Company. Ms. St. Denis was granted 150,000 stock options on March 12, 2014 with an exercise price of $0.16, an expiry date of March 11, 2019, and a fair value of $22,020. At June 30, 2014, $14,648 (December 31, 2013 - $20,459) due to T. St. Denis, Inc. was included in the amount due to related parties and $5,000 was included in accounts payable and accrued liabilities relating to the accounting accrual for the period ended June 30, 2014.

Timeline Filing Services Ltd. is a private company owned by the Corporate Secretary, Laara Shaffer. Ms. Shaffer was granted 50,000 stock options on June 25, 2014 with an exercise price of $0.27, an expiry date of June 24, 2019, and a fair value of $12,395. At June 30, 2014, $Nil (December 31, 2013 - $2,625) due to Timeline Filing Services Ltd. was included in the amount due to related parties.

Ian Foreman is a director of the Company. At June 30, 2014, $1,478 (December 31, 2013 - $1,478) due to Mr. Foreman's business, Foremost Management Services, was included in the amount due to related parties.

(Expressed in Canadian Dollars)

8. CONTINGENT LIABILITY

On May 18, 2011, the Company received an order granted by a court in Lima, Peru indicating that the Company is responsible for a debt of US$209,403 incurred by a former subsidiary of the Company. The Company did not receive notice of the Peruvian legal proceedings and is seeking advice concerning an application to set aside the order. The Company retained Peruvian legal counsel who advised that the Company is not responsible for this obligation. The most recent contact from Peru indicates that the order has been dropped but the Company has not received formal notice of such release. No amounts have been recorded in the Company's books and records regarding this issue.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities along with other cash flow information during the periods ended June 30, 2014 and 2013 were as follows:

		June 30 2014		June 30 2013
Fair value of agent warrants expired	**$**	**-**	$	36,528
Fair value of agent warrants issued for share costs	**$**	**57,782**	$	-
Fair value of stock options cancelled/expired	**$**	**7,625**	$	-
Income taxes paid	**$**	**-**	$	-
Interest paid	**$**	**1,030**	$	870
Interest received	**$**	**54**	$	-
Share subscription received	**$**	**15,000**	$	9,000

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The carrying values of cash, accounts payable and accrued liabilities, amounts due to related parties, and loans payable approximate their carrying values due to the immediate or short-term nature of these instruments.

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Financial risk management

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

i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. The Company's financial assets are not subject to material financial risks.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and with property exploration and development. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at June 30, 2014 and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. The Company will need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof.

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period.

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity. At June 30, 2014, the Company has an interest bearing loan payable with a set interest rate. The Company is not exposed to interest rate price risk as it does not have any cash and cash equivalents at June 30, 2014 which bear interest.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Financial risk management (continued)

iii) Market risk (continued)

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not exposed to foreign currency risk to the extent that all monetary assets and liabilities are denominated in Canadian currency and all operations are in Canada to date.

(c) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, warrants, reserves, and deficit. The availability of new capital will depend on many factors including a positive mineral exploration environment, positive stock market conditions, the Company's track record, and the experience of management. The Company is not subject to any external covenants on its capital.