Weststar Resources Corp.

Financial Statements

December 31, 2013 and 2012

(Expressed in Canadian Dollars)

Weststar Resources Corp.

December 31, 2013 and 2012

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Financial Statements

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF WESTSTAR RESOURCES CORP.

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

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

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

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

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

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

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 2 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 28, 2014

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Weststar Resources Corp.
Statements of Financial Position
December 31, 2013 and 2012
(Expressed in Canadian Dollars)

	2013	2012
Assets		
Current		
Cash	$ **1,586**	$ 2,893
Receivables (note 6)	**3,618**	20,473
Prepaid expenses	**-**	2,949
	5,204	26,315
Investment (note 7)	**2,250**	33,750
Reclamation Deposit (note 8)	**-**	5,000
Property and Equipment (note 9)	**2,047**	5,918
Exploration and Evaluation Assets (note 10)	**1,587,458**	1,620,395
	$ **1,596,959**	$ 1,691,378
Liabilities		
Current		
Accounts payable and accrued liabilities (note 12)	$ **317,159**	$ 339,820
	317,159	339,820
Shareholders' Equity		
Share Capital (note 11)	**13,395,459**	13,196,621
Reserves (note 11)	**3,901,080**	3,876,883
Accumulated Other Comprehensive Income	**2,250**	33,750
Deficit	**(16,018,989)**	(15,755,696)
	1,279,800	1,351,558
	$ **1,596,959**	$ 1,691,378

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

Approved on behalf of the Board:

"Keith Anderson" .... Director
Keith Anderson

"William Rascan" .... Director
William Rascan

Weststar Resources Corp.

Statements of Comprehensive Loss
Years Ended December 31 2013 and 2012
(Expressed in Canadian Dollars)

		2013		2012
Expenses				
Accounting, legal and audit (note 12)	$	**7,817**	$	132,815
Amortization		**1,874**		4,732
Consulting fees (note 12)		**19,200**		151,750
Management fees (note 12)		**87,500**		119,879
Office and general		**19,729**		47,463
Rent		**9,021**		28,800
Share-based payments (note 11)		**21,490**		146,699
Shareholder communications and investor relations		**5,250**		12,857
Transfer agent and filing fees		**16,985**		16,977
		188,866		661,972
Realized gain on available-for-sale investments (note 7)		**(5,100)**		(13,600)
Loss (gain) on sale of equipment		**1,747**		(8,588)
Impairment of exploration and evaluation assets (note 10)		**77,780**		5,958,025
Net Loss for the Year		**263,293**		6,597,809
Items that may be reclassified subsequently to profit or loss				
Unrealized loss on available-for-sale investments (note 7)		**31,500**		121,909
Comprehensive Loss for the Year	$	**294,793**	$	6,719,718
Basic and Diluted Loss Per Share	$	**0.01**	$	0.27
Weighted Average Number of Common Shares Outstanding – Basic and Diluted		**29,156,583**		24,133,492

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

Weststar Resources Corp.

Statements of Changes in Equity
Years ended December 31, 2013 and 2012
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
Balance, December 31, 2011	**24,133,492**	**$ 13,196,621**	**$ 3,730,184**	**$ 155,659**	**$ (9,157,887)**	**$ 7,924,577**
Options granted	-	-	146,699	-	-	146,699
Comprehensive loss for the year	-	-	-	(121,909)	(6,597,809)	(6,719,718)
Balance, December 31, 2012	**24,133,492**	**$ 13,196,621**	**$ 3,876,883**	**$ 33,750**	**$ (15,755,696)**	**$ 1,351,558**

	Number of Shares	Share Capital	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
Balance, December 31, 2012	**24,133,492**	**$ 13,196,621**	**$ 3,876,883**	**$ 33,750**	**$ (15,755,696)**	**$ 1,351,558**
Private placement	3,915,000	137,025	-	-	-	137,025
Share issue costs	-	(10,687)	2,707	-	-	(7,980)
Shares issued for exploration and evaluation assets	3,325,000	72,500	-	-	-	72,500
Options granted	-	-	21,490	-	-	21,490
Comprehensive loss for the year	-	-	-	(31,500)	(263,293)	(294,793)
Balance, December 31, 2013	**31,373,492**	**$ 13,395,459**	**$ 3,901,080**	**$ 2,250**	**$ (16,018,989)**	**$ 1,279,800**

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

Weststar Resources Corp.
Statements of Cash Flows
Years Ended December 31
(Expressed in Canadian Dollars)

	2013	2012
Operating Activities		
Net loss for the year	$ **(263,293)**	$ (6,597,809)
Items not involving cash		
Amortization	**1,874**	4,732
Share-based payments	**21,490**	146,699
Realized gain on available-for-sale investments	**(5,100)**	(13,600)
Loss (gain) on sale of equipment	**1,747**	(8,588)
Impairment of exploration and evaluation assets	**77,780**	5,958,025
Changes in non-cash working capital		
Receivables	**16,855**	12,089
Prepaid expenses	**2,949**	50,247
Accounts payable and accrued liabilities	**(22,661)**	315,090
Cash Used in Operating Activities	**(168,359)**	(133,115)
Investing Activities		
Proceeds from investments	**5,100**	13,600
Proceeds from sale of equipment	**250**	29,999
Purchase of equipment	**-**	(7,105)
Recovery of reclamation deposits	**5,000**	-
Acquisition of exploration and evaluation assets	**(5,000)**	-
Exploration and evaluation asset recoveries (expenditures), net	**32,657**	(154,278)
Cash Provided by (Used in) Investing Activities	**38,007**	(117,784)
Financing Activity		
Shares issued for cash, net of issue costs	**129,045**	-
Cash Provided by Financing Activity	**129,045**	-
Outflow of Cash	**(1,307)**	(250,899)
Cash, Beginning of Year	**2,893**	253,792
Cash, End of Year	$ **1,586**	$ 2,893

SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2013	2012
Income tax paid	$ -	$ -
Interest paid	$ -	$ -

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

1. NATURE OF OPERATIONS

Weststar Resources Corp. (the "Company") is a Vancouver, British Columbia, based company listed on the TSX Venture Exchange (the "Exchange"). The Company was incorporated on October 27, 2004 in the province of British Columbia. During the year ended December 31, 2006, the Company completed its initial public offering on the Exchange, and the Company's shares were listed for trading on September 22, 2006.

The principal address of the Company is located at 1656 Scarborough Crescent, Port Coquitlam, British Columbia, Canada, V3C 2R1.

2. GOING CONCERN

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several adverse conditions cast significant doubt on the validity of this assumption. The Company incurred an operating loss during the year ended December 31, 2013 of $263,293 (2012 - $6,597,809) and has a deficit of $16,018,989 (2012 - $15,755,696), has limited resources, no sources of operating cash flow and no assurances that sufficient funding will be available to continue operations for an extended period of time. The Company is in the exploration stage, and accordingly, has not yet commenced revenue-producing operations.

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these financial statements then adjustments may be necessary in the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. Such adjustments could be material.

3. BASIS OF PREPARATION

a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

These financial statements have been prepared under the historical cost basis, except for financial instruments classified as available-for-sale ("AFS") and fair value through profit or loss ("FVTPL"). These financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

c) Approval of the financial statements

The financial statements of Weststar Resources Corp. for the year ended December 31, 2013 were approved and authorized for issue by the Board of Directors on April 28, 2014.

3. BASIS OF PRESENTATION (Continued)

d) Use of estimates and judgments

The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

The key area of judgment applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is as follows:

- The carrying value of the exploration and evaluation assets and the recoverability of the carrying value

  Assets or cash-generating units ("CGUs") are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's resource properties.

  Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, economics assessment/studies, accessible facilities and existing permits.

The key estimates applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The recoverability of deferred tax assets;
- Useful lives of depreciable assets;
- Provision for reclamation costs, among others; and
- Assumptions used to calculate share-based payments.

Actual results could differ from those estimates. Key judgments and estimates made by management with respect to those areas noted previously have been disclosed in the notes to the financial statements, as appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been applied consistently throughout the year to the Company for purposes of these financial statements.

a) Foreign currency translation

The Company's presentation currency and the functional currency is the Canadian dollar, as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not subsequently restated.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

b) Property and equipment

i) Recognition and measurement

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment are subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

ii) Subsequent costs

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Property and equipment (continued)

iii) Amortization

The amortization rates applicable to each category of property and equipment are as follows:

Class of equipment	**Amortization rate**
Computer equipment	55% declining balance
Office equipment	20% declining balance
Leasehold improvements	20% straight-line

One-half the annual amortization is taken in the year of equipment acquisition.

c) Exploration and evaluation assets

i) Exploration and evaluation expenditures

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs incurred prior to obtaining licenses are expensed in the period in which they are incurred. Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration, and classified as a component of mineral properties. Such expenditures include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, including drilling costs directly attributable to a property, and directly attributable to general and administrative costs. From time to time the Company may acquire or dispose of a mineral property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets are tested for impairment and transferred to “mines under construction”. No amortization is taken during the exploration and evaluation phase.

ii) Decommissioning liabilities

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production.

Decommissioning and site rehabilitation costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs are charged against operations through depreciation of the asset and unwinding of the discount on the provision.

Depreciation is included in operating costs while the unwinding of the discount is included as a financing cost. Changes in the measurement of a liability relating to the decommissioning or site rehabilitation of plant and other site preparation work are added to, or deducted from, the cost of the related asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Exploration and evaluation assets (continued)

ii) Decommissioning liabilities (continued)

The costs for the restoration of site damage, which arises during production, are provided at their net present values and charged against operations as extraction progresses.

Changes in the measurement of a liability, which arises during production, are charged against operating profit. The discount rate used to measure the net present value of the obligations is the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. To date the Company does not have any decommissioning liabilities.

d) Impairment of assets

Assets that have an indefinite useful life are tested annually for impairment. At the end of each reporting period, the Company reviews the carrying amounts of its assets that are subject to amortization to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

e) Share capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in share capital and the related residual value is transferred to share capital.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Flow-through shares

Resource expenditures for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. A liability is recognized for the premium on the flow-through shares and is subsequently reversed as the Company incurs qualifying Canadian exploration expenses.

In circumstances where the Company has issued flow-through shares by way of a unit offering, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve first based on the fair value of the warrant component using the Black Scholes option pricing model on grant date. Any remaining residual value is then recognized as a liability for the premium on the flow-through shares.

g) Financial instruments

i) Financial assets

The Company classifies its financial assets in the following categories: FVTPL, held-to-maturity investments (“HTM”), loans and receivables, and AFS. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of assets at recognition.

- Financial assets at fair value through profit or loss
  Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through income. Cash and cash equivalents are included in this category of financial assets.

- Held-to-maturity investments
  HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs.

- Loans and receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost, less any impairment.

- Available-for-sale financial assets
  AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity.

  Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are also recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit and loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (continued)

i) Financial assets (continued)

- Effective interest method
  The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

  Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

ii) Financial liabilities

The Company classifies its financial liabilities in the following categories: Borrowings and other financial liabilities and derivative financial liabilities.

- Borrowings and other financial liabilities
  Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the income statement over the period to maturity using the effective interest method. Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

- Derivative financial liabilities
  Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit and loss. Derivative financial liabilities include warrants issued by the Company denominated in a currency other than the Company's functional currency.

iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3:	Inputs for assets or liabilities that are not based on observable market data.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Share-based payment transactions

The Company grants share options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as either an expense or as mineral property interests with a corresponding increase in option reserves. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in option reserves is transferred to share capital.

i) Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the statement of comprehensive loss. 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 regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. 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.

j) Earnings (loss) per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) New accounting standards issued but not yet effective

IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

IFRS 9 Financial Instruments (2010)

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at FVTPL – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

Applicable to annual periods beginning on or after January 1, 2014.

5. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash is classified as financial assets at FVTPL; receivables as loans and receivables; investment, as AFS; and accounts payable and accrued liabilities, as other financial liabilities, which are measured at amortized cost. The carrying value of these instruments approximates their fair values due to their short term to maturity.

5. FINANCIAL INSTRUMENTS (Continued)

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash and cash equivalents, by placing at major Canadian financial institutions. The Company has minimal credit risk.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of December 31, 2013 equal $317,159 (2012 - $339,820). All of the liabilities presented as accounts payable are due within 90 days of December 31, 2013.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

As at December 31, 2013, the Company is not exposed to significant market risk.

d) Capital management

The Company considers its capital to be comprised of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the year ended December 31, 2013. The Company is not subject to external restrictions on its capital.

6. RECEIVABLES

Receivables at December 31, 2013 include GST recoverable of $3,168 (2012 - $16,361) and a receivable from the disposal of office and computer equipment of $Nil (2012 - $4,112).

7. INVESTMENT

The Company received 500,000 common shares of Canada Coal Inc. ("CCK") pursuant to the disposition of exploration and evaluation assets during the year ended December 31, 2010. The 500,000 common shares are subject to escrow and are released on a staged basis, with 10% released on February 29, 2012, and 15% to be released every six months thereafter for a period of 36 months. As at December 31, 2013, 225,000 common shares were held in escrow (2012 - 375,000).

During the year ended December 31, 2013, the Company sold 150,000 common shares of CCK for proceeds of $5,100. At December 31, 2013, the fair value of the remaining 225,000 common shares of CCK held was $2,250, and an unrealized loss of $31,500 was recorded in other comprehensive loss for the year ended December 31, 2013.

During the year ended December 31, 2012, the Company sold 125,000 common shares of CCK for proceeds of $13,600. As at December 31, 2012, the fair value of the remaining 375,000 common shares of CCK held was $33,750, and an unrealized loss of $121,909 was recorded in other comprehensive loss for the year ended December 31, 2012.

8. RECLAMATION DEPOSIT

At December 31, 2012, the Company held a guaranteed investment certificate ("GIC") with an interest rate of 1% per annum and a fair value of $5,000. The GIC was held as a resource reclamation deposit and was restricted for other uses. During the year ended December 31, 2013, the GIC was refunded to the Company, as it was no longer required to be held as a reclamation deposit.

9. PROPERTY AND EQUIPMENT

During the year ended December 31, 2013, the Company disposed of office equipment with a net book value of $1,997 for proceeds of $250, resulting in a loss of $1,747.

During the year ended December 31, 2012, the Company disposed of equipment with a net book value of $21,411 for proceeds of $29,999, resulting in a gain of $8,588.

(Expressed in Canadian Dollars)

9. PROPERTY AND EQUIPMENT (Continued)

	Computer Equipment	Office Equipment	Leasehold Improvement	Total
Cost				
Balance, December 31, 2011	$ 12,560	$ 26,567	$ 4,475	$ 43,602
Additions	2,724	4,381	-	7,105
Disposals	(12,560)	(26,567)	-	(39,127)
Balance, December 31, 2012	2,724	4,381	4,475	11,580
Disposals	-	(2,349)	(4,475)	(6,824)
Balance, December 31, 2013	$ 2,724	$ 2,032	$ -	$ 4,756
Amortization				
Balance, December 31, 2011	$ 8,699	$ 7,534	$ 2,413	$ 18,646
Amortization	1,701	969	2,062	4,732
Disposals	(9,651)	(8,065)	-	(17,716)
Balance, December 31, 2012	749	438	4,475	5,662
Amortization	1,086	788	-	1,874
Disposals	-	(352)	(4,475)	(4,827)
Balance, December 31, 2013	$ 1,835	$ 874	$ -	$ 2,709
Net Book Value, December 31, 2012	$ 1,975	$ 3,943	$ -	$ 5,918
Net Book Value, December 31, 2013	$ 889	$ 1,158	$ -	$ 2,047

10. EXPLORATION AND EVALUATION ASSETS

Axe Property

Pursuant to an option agreement dated July 19, 2005, the Company acquired a 70% interest (originally 66%, but amended by mutual consent) in the Axe claims situated in the Similkameen Mining District, British Columbia. As consideration for the property, the Company paid $5,000, issued 300,000 common shares at a fair value of $243,500 and incurred exploration costs of $500,000.

Pursuant to an agreement dated March 23, 2007, the Company acquired four additional claims. As consideration for the claims, the Company paid $15,000. The claims are subject to a 2% net smelter royalty ("NSR") and under the terms of the agreement the Company has the right to purchase the NSR in stages for up to $3,000,000.

10. EXPLORATION AND EVALUATION ASSETS (Continued)

Axe Property (continued)

On March 21, 2012 the Company entered into an option agreement with Xstrata Copper Canada ("Xstrata") and Bearclaw Capital Corp. ("Bearclaw"). Under the terms of the option agreement, the Company and Bearclaw agreed to grant Xstrata an option to earn a 51% interest where Xstrata would have the sole and exclusive right to carry out exploration activities on and evaluate the Axe Property. In order to exercise the option, during the earn-in period, Xstrata was required to incur $3,000,000 of expenditures in exploration activities on the Axe Property.

During the earn-in period, Xstrata was required to pay to the Company and Bearclaw (collectively, in proportion to their participating interests in the Axe Property, which are 70% for the Company and 30% for Bearclaw):

- $25,000 immediately (received);
- $25,000 on March 31, 2013 (received);
- $30,000 on March 31, 2014;
- $40,000 on March 31, 2015; and
- $60,000 on March 31, 2016.

If Xstrata exercised the option, the Company, Bearclaw and Xstrata would enter into a formal joint venture agreement. Under the option agreement, the Company and Bearclaw also granted Xstrata a right of first refusal ("ROFR") over any direct or indirect sale or transfer by the Company and/or Bearclaw of any of their respective interest in the Axe Property. The ROFR would terminate at the end of the earn-in period if Xstrata had not exercised the option.

On July 3, 2013, the Company received notification from Xstrata electing to terminate its option agreement.

On August 23, 2013, the Company and Bearclaw entered into a Letter of Intent ("LOI") to enter into an option agreement with Copper Mountain Mining Corp. ("Copper Mountain"). The option agreement was completed with an effective date of December 21, 2013. Under the terms of the option agreement, the Company and Bearclaw agreed to grant Copper Mountain an option to earn a 75% undivided interest in and to the Axe Property.

Copper Mountain can earn a 51% interest in the Axe Property by incurring $3,000,000 of expenditures in exploration activities on the Axe Property during a five year period, with a minimum of $100,000 per year. Copper Mountain must pay to the Company and Bearclaw (collectively, in proportion to their participating interests in the Axe Property, which are 70% for the Company and 30% for Bearclaw):

- $5,000 upon signing the LOI (received);
- $20,000 upon completion of the agreement (received);
- $30,000 on December 21, 2014;
- $50,000 on December 21, 2015;
- $100,000 on December 21, 2016;
- $150,000 on December 21, 2017; and
- $200,000 on December 21, 2018.

If Copper Mountain exercises the option, the Company, Bearclaw and Copper Mountain will enter into a formal joint venture agreement. Copper Mountain will be the initial operator holding a 51% participating interest, and the Company and Bearclaw, a 34.3% and 14.7% participating interest, respectively.

10. EXPLORATION AND EVALUATION ASSETS (Continued)

Axe Property (continued)

Upon exercise of the option, Copper Mountain will have the option to acquire an additional 24% undivided interest in the Axe Property (increasing its interest to 75%, absent other adjustments) by incurring an additional $6,000,000 in expenditures on the Axe Property in two stages of $3,000,000 per stage. In the event Copper Mountain exercises the second option and acquires an undivided 75% interest in the Axe Property, the Company and Bearclaw will have a 17.5% and 7.5% participating interest, respectively.

Page Property

On December 16, 2013, the Company entered into an agreement to acquire a 100% interest in the Page Property comprising 16 mineral claims in the Porcupine Mining Division of Ontario. In consideration, the Company must issue 600,000 common shares of the Company. Subsequent to year-end, the 600,000 common shares were issued (note 16).

East Miller Claims

On September 25, 2013 (amended December 10, 2013), the Company entered into an agreement to acquire a 100% interest in 9 mineral claims in Quebec, Canada. In consideration, the Company must issue 2,500,000 common shares of the Company. The Company also must pay finder's fees of 250,000 common shares of the Company. Subsequent to year-end, the total 2,750,000 common shares were issued (note 16).

Albany South East Property

On July 15, 2013, the Company entered into an agreement to acquire a 100% interest in the Albany South East Property comprising 19 mineral claims in the Porcupine Mining Division of Ontario. In consideration, the Company issued 2,750,000 common shares of the Company (valued at $55,000) and was required to pay $15,000. The Company also paid finder's fees of 275,000 common shares of the Company (valued at $5,500).

The $15,000 cash payment was not made and the Company is in default of the agreement. The property was deemed to be impaired at December 31, 2013 and written down to $Nil.

Tahts Reach Property

On February 7, 2013, the Company entered into an option agreement with Caribou King Resources Ltd. (the “Option Agreement”) to earn a 70% interest in the Tahts Reach Property and Barkerville Claims (collectively, the “Property”) comprising 6 mining claims located in British Columbia.

Payment terms are as follows:

- $5,000 (paid) and 300,000 common shares (issued and valued at $12,000) in conjunction with receipt of approval from the Exchange;
- $10,000 and 150,000 common shares on February 15, 2014, and
- $25,000 and 150,000 common shares on February 15, 2015.

In addition, the Company must incur exploration expenditures on the Property of $45,000 over two years.

Subsequent to year-end, the Company terminated the option agreement. The property was deemed to be impaired at December 31, 2013 and written down to $Nil.

10. EXPLORATION AND EVALUATION ASSETS (Continued)

Diego Property

On May 22, 2013, the Company entered into a LOI to enter into an option agreement with Cartier Resources Inc. (“Cartier”). The agreement was to acquire up to an 80% interest in the Diego Property, comprising 53 mining claims located in Quebec.

Pursuant to the terms of the LOI, the Company could earn a 50% interest in Diego by paying $15,000 and issuing 350,000 common shares in the capital of the Company upon Exchange approval. The Company was also required to incur $1,000,000 in exploration expenditures on the Property over a period of three years.

The Company could acquire an additional 30% interest by incurring an additional $1,000,000 in exploration expenditures over a period of two years following completion of the initial exploration expenditure requirements.

The LOI held a condition precedent that the Company complete a non-brokered private placement financing for minimum gross proceeds of $500,000. On August 22, 2013, the LOI was extended to November 21, 2013, at which time the LOI was terminated.

Acquisition of La Paloma Property and Assignment of Option Agreement

On March 17, 2011, and as amended June 30, 2011, the Company entered into a LOI with Lekona Minerals Incorporated ("Lekona") to acquire the rights, title and interest in and to the La Paloma concessions, located in Jalisco, Mexico, including the 20% undivided interest held by Lekona, and Lekona's rights under the underlying option agreement between Lekona and Minera Sierra de Oro S.A. de C.V. ("Minera"). The Company was assigned an option to acquire an 80% interest in the La Paloma concessions from Minera under an option agreement dated September 15, 2010 and amended April 30, 2011, between Lekona and Minera. Lekona had previously exercised a portion of the option granted under the option agreement, and accordingly, the Company now owns a 20% undivided interest in the La Paloma concessions. The Company completed the transaction on August 9, 2011.

The terms of the agreement and the amounts owing were as follows:

- $700,000 to Lekona (paid);
- Issuance of 4,000,000 common shares of the Company to Lekona's shareholders (issued at a fair value of $2,521,592);
- Issuance of 1,650,000 common shares of the Company to Minera (issued at a fair value of $1,007,157); and
- Issuance of 1,500,000 share purchase warrants to Lekona (issued at a fair value of $449,751), each such warrant being exercisable into one common share of the Company at a price of $1.50 for a period expiring August 9, 2012. The warrants were only exercisable in the event that:
    i. The Company completed phase I of the work program contained in the National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (“NI 43-101”) report dated June 26, 2011 on the project and delivered a new NI 43-101 compliant report describing the results of the phase I work, and accommodation to proceed to phase 2; and
    ii. The Company completed a follow on financing of not less than $1,000,000 to fund the phase 2 program.

Once the financing was complete (the “Completion Date”), the following additional payments would have been required:

- Issuance of 2,000,000 common shares of the Company to Lekona's shareholders within 10 business days of the Completion Date; and
- $1,100,000 on or before August 9, 2012 to or to the direction of Lekona.

10. EXPLORATION AND EVALUATION ASSETS (Continued)

Acquisition of La Paloma Property and Assignment of Option Agreement (continued)

The Company would also be required to assume the unfulfilled obligations of Lekona under Lekona's previous option agreement, including the payments of cash and shares due to Minera. Lekona would retain a 2% NSR.

The Option Agreement between Lekona and Minera provided for the following payments.

In order for Lekona to acquire an undivided 20% interest in La Paloma:

- $50,000 non-refundable deposit (paid by Lekona);
- $300,000 (paid by Lekona); and
- Issuance of 2,000,000 common shares of Lekona (issued).

As a result, Lekona acquired an undivided 20% interest in La Paloma.

In order for Lekona to acquire a further 20% interest in La Paloma (for an aggregate of 40%):

- $300,000 on or before April 30, 2011 (paid by Lekona);
- Upon closing of the transaction between the Company and Lekona, the issuance of 1,650,000 common shares (issued at a fair value of $1,007,157) in the share capital of the Company and the expenditure on or before October 30, 2011 of $200,000 (incurred) on or in respect of the property. In consideration for the foregoing, the Company acquired a further 20% interest in the La Paloma concessions, for an aggregate 40% interest;
- On or before October 30, 2011, a further payment of $400,000 (paid) and the issuance of 1,000,000 common shares (issued at a fair value of $470,000) of the Company. In addition, a further $250,000 was to be expended on or in respect of the property and a NI 43-101 level report was to be generated. In consideration of the foregoing, the Company would have acquired a further 20% interest in the La Paloma concessions, for an aggregate 60% interest in the property; and
- On or before October 30, 2012, a final payment of $2,000,000, the issuance of an additional 2,000,000 shares in the share capital of the Company and the expenditure of a further $750,000 on or in respect of the property. In consideration of the foregoing, the Company would have acquired a further 20% interest in the property, for an aggregate 80% interest.

In addition to the foregoing, in the event the Company received a NI 43-101 compliant report, acceptable to both parties, indicating that there were resources of gold and silver in the project exceeding 4,000,000 ounces and 150,000,000 ounces, respectively, the Company would have been required to deliver to or to the order of Minera 5,000,000 common shares of the Company. The NI 43-101 would have been undertaken and paid for by the Company on or prior to October 31, 2014, or within 12 months following the Company acquiring the 80% undivided interest in the project, whichever event occurred first.

At December 31, 2012, the Company was in default of payments. As there were no immediate plans to remedy the default, the property was impaired and written down to $Nil.

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

10. EXPLORATION AND EVALUATION ASSETS (Continued)

Environmental (continued)

Environmental legislation is becoming increasingly stringent and the expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

Title to exploration and evaluation interests

Although the Company has taken steps to verify the title to mineral property interests in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

(Expressed in Canadian Dollars)

10. EXPLORATION AND EVALUATION ASSETS (Continued)

	Axe Property	Albany South East Property	Tahts Reach Property	La Paloma Property	Total
Balance, December 31, 2012	**$ 1,620,395**	**$ -**	**$ -**	**$ -**	**$ 1,620,395**
Acquisition costs	-	60,500	17,000	-	77,500
Exploration costs					
Geological consulting	2,063	-	280	-	2,343
Option payments received	(35,000)	-	-	-	(35,000)
Total deferred exploration costs	(32,937)	-	280	-	(32,657)
Impairment of acquisition and exploration costs	-	(60,500)	(17,280)	-	(77,780)
Balance, December 31, 2013	**$ 1,587,458**	**$ -**	**$ -**	**$ -**	**$ 1,587,458**

	Axe Property	Albany South East Property	Tahts Reach Property	La Paloma Property	Total
Balance, December 31, 2011	**$ 1,637,895**	**$ -**	**$ -**	**$ 5,786,247**	**$ 7,424,142**
Acquisition costs	-	-	-	5,000	5,000
Exploration costs					
Geological consulting	-	-	-	166,778	166,778
Option payments received	(17,500)	-	-	-	(17,500)
Total deferred exploration costs	(17,500)	-	-	166,778	149,278
Impairment of acquisition and exploration costs	-	-	-	(5,958,025)	(5,958,025)
Balance, December 31, 2012	**$ 1,620,395**	**$ -**	**$ -**	**$ -**	**$ 1,620,395**

(Expressed in Canadian Dollars)

11. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

Issued share capital

During the year ended December 31, 2013

In February 2013, 300,000 common shares valued at $12,000 were issued as acquisition costs on the Tahts Reach Property (note 10).

On February 22, 2013, the Company closed a non-brokered private placement and issued 3,915,000 units at a price of $0.035 per unit for gross proceeds of $137,025. Each unit consists of one common share in the capital of the Company and one-half of one share purchase warrant. Each whole warrant is exercisable by the holder to acquire one additional common share of the Company for a period of two years from issuance at an exercise price of $0.07 in the first year and $0.10 in the second year. The units are subject to a four-month hold period.

In addition, the Company paid a finder's fee of $7,980 and 153,000 finder's warrants. Each finder's warrant is exercisable by the holder to acquire one additional common share of the Company for a period of two years from issuance at an exercise price of $0.07 in the first year and $0.10 in the second year. The finder's warrants are also subject to a four-month hold period. The Black-Scholes fair value of the finder's warrants was $2,707 and was included in reserves.

In July 2013, 3,025,000 common shares valued at $60,500 were issued as acquisition costs and finder's fees on the Albany South East Property (note 10).

During the year ended December 31, 2012

There were no share transactions during the year ended December 31, 2012.

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	2013		**2012**	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	1,232,200	$ 0.94	5,097,819	$ 1.06
Issued	2,110,500	$ 0.07	-	-
Expired	(1,232,200)	$ 0.94	(3,865,619)	$ 0.93
Outstanding, end of year	2,110,500	$ 0.07	1,232,200	$ 0.94

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

Warrants (continued)

During the year ended December 31, 2013

The Company used the Black-Scholes option pricing model to calculate the fair value of warrants issued as finders' fees with the following assumptions: risk-free interest rate of 1.07%; expected dividend yield of zero; expected share price volatility of 110%; and expected life of 2 years. The Company used historical volatility to estimate the volatility of the share price. The grant date fair value of the warrants was $0.02. Accordingly, $2,707 was recognized as share-based payments expense during the year ended December 31, 2013.

During the year ended December 31, 2012

On June 1, 2012, the Company amended the terms of 1,232,200 outstanding share purchase warrants that were issued July 5, 2011 by extending the expiry date from July 5, 2012 to July 5, 2013 and reducing the exercise price $1.50 to $0.94.

The following warrants were outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	**2013**	**2012**
July 5, 2013	-	$ 0.94	-	1,232,200
February 22, 2015	1.15	$ 0.07/$ 0.10	2,110,500	-
	1.15		2,110,500	1,232,000

Share options

The Company has adopted a share option plan pursuant to which the Board of Directors of the Company may, from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares at the time of grant and the options are exercisable for a period not to exceed 10 years from the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised within 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, employment or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

Share options (continued)

Options granted to directors, employees and consultants vest immediately. Options granted to consultants engaged in investor relations activities will vest in stages over a minimum period of 12 months with no more than one-quarter of the options vesting in any three-month period.

Share option transactions and the number of share options outstanding are summarized as follows:

	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,031,250	$ 0.17	56,252	$ 1.73
Granted	1,100,000	$ 0.05	2,000,000	$ 0.15
Cancelled	-	-	(25,002)	$ 1.74
Expired	(31,250)	$ 1.73	-	-
Outstanding, end of year	3,100,000	$ 0.11	2,031,250	$ 0.17

During the year ended December 31, 2013

On September 18, 2013, the Company granted 1,100,000 share options to its consultants exercisable at a price of $0.05 per common share. The options are fully vested and exercisable upon grant and expire on September 18, 2014 unless otherwise terminated earlier.

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its share options granted with the following assumptions: risk-free interest rate of 1.26%; expected dividend yield of zero; expected share price volatility of 147%; and expected life of 1 year. The Company used historical volatility to estimate the volatility of the share price. The grant date fair value of each option was $0.02. Accordingly, $21,490 was recognized as share-based payment expense during the year ended December 31, 2013.

During the year ended December 31, 2012

On July 9, 2012, the Company granted 2,000,000 share options to its directors and consultants exercisable at a price of $0.15 per common share. The options are fully vested and exercisable upon grant and expire July 9, 2017 unless otherwise terminated earlier.

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its share options granted with the following assumptions: risk-free interest rate of 1.14%; expected dividend yield of zero; expected share price volatility of 166%; and expected life of 5 years. The Company used historical volatility to estimate the volatility of the share price. The grant date fair value of each option was $0.07. Accordingly, $146,699 was recognized as share-based payment expense during the year ended December 31, 2012.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

Share options (continued)

The following share options were outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	**2013**	**2012**
August 22, 2013	-	$ 1.68	-	18,750
October 15, 2013	-	$ 1.80	-	12,500
September 18, 2014	0.72	$ 0.05	1,100,000	-
July 9, 2017	3.52	$ 0.15	2,000,000	2,000,000
	-	-	3,100,000	2,031,250

12. RELATED PARTY TRANSACTIONS

These amounts of key management compensation are included in the amounts shown on the statements of comprehensive loss:

	2013	**2012**
Short-term compensation	$ 138,430	$ 243,410
Share-based payments	$ -	$ 90,953

The amounts charged to the Company for the services provided have been determined by negotiation among the parties, and in certain cases, by signed agreements. These transactions were in the normal course of operations.

As at December 31, 2013, accounts payable and accrued liabilities included $125,556 (2012 - $163,246) due to companies controlled by directors and officers and former directors and officers. The amounts due are non-interest-bearing, unsecured and without stated terms of repayment.

During the year ended December 31, 2013, the Company entered into debt settlement agreements with former management and directors. Accounts payable of $84,000 were forgiven for nominal consideration. The amounts consisted of $22,500 of accounting, audit and legal expenses, $20,000 of consulting fees and $32,500 of management and directors' fees and $9,000 of GST.

13. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 25.75% (2012 - 25.00%) to income before income taxes.

(Expressed in Canadian Dollars)

13. INCOME TAXES (Continued)

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2013	2012
Net loss for the year	$ (263,293)	$ (6,597,809)
Statutory income tax rate	25.75%	25.00%
Income tax benefit computed at statutory tax rate	(67,798)	(1,649,452)
Items not deductible for income tax purposes	5,756	37,090
Change in timing differences	(5,842)	(9,690)
Effect of change in tax rate	272	-
Unrecognized benefit of deferred income tax assets	67,612	1,622,052
Income tax expense	$ -	$ -

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of December 31 are as follows:

	2013	2012
Non-capital losses carried forward	$ 5,196,206	$ 4,957,874
Excess of tax value over carrying value of exploration and evaluation assets	8,436,105	8,418,825
Excess of tax value over carrying value of property and equipment	2,709	1,187
Share issue costs	95,379	166,192
AFS investment	76,705	60,955
Unrecognized deductible temporary differences	$ 13,807,104	$ 13,605,033

The Company has non-capital losses of $5,196,000 available for carry-forward to reduce future years' income for income tax purposes. These losses expire as follows:

2015	$ 52,000
2026	92,000
2027	404,000
2028	607,000
2029	1,385,000
2030	727,000
2031	1,111,000
2032	580,000
2033	238,000
	$ 5,196,000

14. SEGMENTED DISCLOSURE

The Company currently operates in one industry segment, being mineral exploration, and in one geographic area, being Canada.

15. COMMITMENTS

The Company entered into management services and consulting agreements with officers, directors and consultants expiring on various dates from June 1, 2014 to August 1, 2014 with a total monthly commitment of $19,000. All the management services and consulting agreements can be terminated with 90 days' notice.

16. SUBSEQUENT EVENTS

On January 6, 2014, the Company issued 2,750,000 common shares of the Company as payment and finder's fees for the East Miller Claims (note 10).

On January 8, 2014, the Company issued 600,000 common shares of the Company as payment for the Page Property (note 10).

On February 28, 2014, the Company issued 2,451,600 common shares of the Company in order to settle debts of $122,580 with directors, officers, consultants and a company with common directors.

On March 6, 2014, the Company entered into an agreement to acquire a 100% interest in the Lac Gueret West Property, consisting of 75 mineral claims located in Quebec. In order to acquire the Property, the Company must:

- issue 2,500,000 common shares of the Company within 14 days of Exchange approval;
- pay $15,000 within 14 days of closing of the Company's next financing; and
- pay $10,000 within 14 days of the first anniversary of Exchange approval.

The vendor retains a 2% NSR on the Property, of which the Company can buy-back 1% at any time for $1,000,000.

On April 7, 2014, the Company granted 680,000 share options to consultants, exercisable at a price of $0.05 per common share until April 7, 2016.

From April 7, 2014 through April 23, 2014, the Company received $76,250 on the exercise of 1,525,000 share options.

On April 17, 2014, the Company reduced the exercise price of 1,080,000 share options that were granted to officers and directors and 210,000 share options that were granted to consultants July 9, 2012. The exercise price of the share options is reduced from $0.15 per common share to $0.05 per common share. The share options still expire July 9, 2017.