

**SCAVO RESOURCE CORP.**

**FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**FOR THE YEAR ENDED MAY 31, 2014**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Scavo Resource Corp.

We have audited the accompanying financial statements of Scavo Resource Corp., which comprise the statements of financial position as at May 31, 2014 and 2013, and the statements of loss and comprehensive loss, changes in shareholders' 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 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, these financial statements present fairly, in all material respects, the financial position of Scavo Resource Corp. as at May 31, 2014 and 2013, 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 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Scavo Resource Corp.'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

July 18, 2014



**SCAVO RESOURCE CORP.**  
**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian Dollars)

	Year Ended May 31, 2014	Year Ended May 31, 2013
<b>OPERATING EXPENSES</b>		
Administration fees (Note 8)	\$ -	\$ 12,250
Management fees (Note 8)	-	30,000
Office and miscellaneous	2,712	4,852
Professional fees	23,751	62,368
Rent (Note 8)	13,500	11,349
Transfer agent and filing fees	<u>14,985</u>	<u>27,903</u>
<b>Loss from operating expenses</b>	(54,948)	(148,722)
Gain on write-off of amount due to related party	<u>-</u>	<u>5,851</u>
<b>Loss and comprehensive loss for the year</b>	<u>\$ (54,948)</u>	<u>\$ (142,871)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
<b>Weighted average number of common shares outstanding</b>	<u>14,619,457</u>	<u>13,024,673</u>

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

**SCAVO RESOURCE CORP.**  
**STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)

	Year Ended May 31, 2014	Year Ended May 31, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (54,948)	\$ (142,871)
Item not affecting cash:		
Gain on write-off of amount due to related party	-	(5,851)
Changes in non-cash working capital items:		
(Increase) decrease in receivables	13,312	(2,919)
Decrease in prepaids	-	5,000
Decrease in accounts payable and accrued liabilities	(26)	(2,757)
Decrease in due to related parties	<u>(15,000)</u>	<u>(5,000)</u>
Net cash used in operating activities	<u>(56,662)</u>	<u>(154,398)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures on exploration and evaluation assets	<u>(23,043)</u>	<u>(84,544)</u>
Net cash used in investing activities	<u>(23,043)</u>	<u>(84,544)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan proceeds (Note 5)	20,000	-
Repayment of loan (Note 5)	(20,000)	-
Share capital issued	<u>303,500</u>	<u>196,000</u>
Net cash provided by financing activities	<u>303,500</u>	<u>196,000</u>
<b>Change in cash for the year</b>	223,795	(42,942)
<b>Cash, beginning of year</b>	<u>25,718</u>	<u>68,660</u>
<b>Cash, end of year</b>	<u>\$ 249,513</u>	<u>\$ 25,718</u>

**Supplemental disclosure with respect to cash flows** (Note 9)

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

**SCAVO RESOURCE CORP.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital Amount	Reserves	Deficit	Total
<b>Balance, May 31, 2012</b>	11,432,235	\$ 2,777,550	\$ 1,691,304	\$ (4,341,717)	\$ 127,137
Exercise of warrants	1,960,000	196,000	-	-	196,000
Shares issued for acquisition of exploration and evaluation asset	300,000	75,000	-	-	75,000
Loss for the year	-	-	-	(142,871)	(142,871)
<b>Balance, May 31, 2013</b>	13,692,235	3,048,550	1,691,304	(4,484,588)	255,266
Exercise of warrants	3,035,001	303,500	-	-	303,500
Loss for the year	-	-	-	(54,948)	(54,948)
<b>Balance, May 31, 2014</b>	16,727,236	\$ 3,352,050	\$ 1,691,304	\$ (4,539,536)	\$ 503,818

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

**SCAVO RESOURCE CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
FOR THE YEAR ENDED MAY 31, 2014

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Scavo Resource Corp. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on January 16, 2007. The Company began trading on the TSX Venture Exchange ("TSX-V") as Patriotstar Ventures Inc. ("Patriotstar"). Prior to December 11, 2009 the Company was a Capital Pool Company as defined in the TSX-V Policy 2.4. Effective December 11, 2009, the Company completed its "Qualifying Transaction" whereby it acquired all of the issued and outstanding shares in TinyMassive Technologies Corp. ("TMTC"), a BC Limited Company. As a result of completing the Qualifying Transaction, the Company was no longer a CPC and control of the Company passed to the shareholders of TMTC. Accordingly, the Qualifying Transaction was a reverse takeover ("RTO") acquisition of the Company by TMTC and was treated as a capital transaction by TMTC.

The Company's head office, principal address and registered and records office is 909 Bowron Street, Coquitlam, British Columbia, Canada, V3J 7W3.

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation. The Company has incurred operating losses over the past several years and does not have a current source of revenue or sufficient financial resources to sustain operations in the long term.

During the year ended May 31, 2011, the Company discontinued its website development activities and all related assets were written off to operations. During the year ended May 31, 2012, the Company entered into an agreement to acquire the Purple Onion Claims (Note 4) . The Company is now engaged in mineral exploration. In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

While management intends to pursue additional financings and the Company has been successful in obtaining its required financing in the past, there is no assurance that such financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

Adverse financial market conditions and volatility increase the uncertainty of the Company's ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds.

These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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**2. BASIS OF PREPARATION**

**Statement of compliance**

These financial statements, including comparatives, have been prepared in accordance with International Accounting Standards using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

**Basis of presentation**

These financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for the cash flows. All dollar amounts are presented in the Company’s functional currency, the Canadian dollar, unless otherwise specified.

**Use of estimates**

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- a) The recoverability of receivables that are included in the statements of financial position based on the historical collection of receivables.
- b) The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position based on the planned exploration budgets and results of future exploration programs.
- c) The valuations of shares issued in non-cash transactions using the quoted share price as the fair value based measurement on the date the shares are issued for the transaction or the value of the goods and services received.
- d) The recognition of deferred tax assets based on the change in unrecognized deductible temporary tax differences.

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**3. SIGNIFICANT ACCOUNTING POLICIES**

**Foreign currency translation**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

*Fair value through profit or loss ("FVTPL")* - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*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 using the effective interest method less any provision for impairment.

*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 method less any provision for impairment.

*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 in other comprehensive income (loss). 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 accumulated other comprehensive income (loss) and recognized in profit or loss.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial instruments (cont'd...)**

All financial assets except those measured 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 objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities* - This category consists of liabilities carried at amortized cost using the effective interest method.

The Company has classified its cash as fair value through profit or loss, its receivables as loans and receivables and its accounts payable and accrued liabilities as other financial liabilities.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Exploration and evaluation assets**

*Pre-exploration costs*

Pre-exploration costs are expensed in the period in which they are incurred.

*Exploration and evaluation expenditures*

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the transferee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of loss and comprehensive loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction."

Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is evaluated at the cash generating unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of the CGU is the greater 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 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but to an amount that 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.

**Provision for environmental rehabilitation**

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

As at May 31, 2014 and 2013, the Company does not have any known rehabilitation obligations.

**Share capital**

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Share-based payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. The fair value of the options is recognized as an expense with a corresponding increase in equity.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted, and is recognized over the vesting period on a graded basis. The share-based payments are recorded as an operating expense with an offset to equity reserves. When options are exercised the consideration received is recorded as share capital. In addition, the related share-based payments originally recorded as equity reserves are transferred to share capital. When an option is cancelled or expires, the initial recorded value is reversed and charged to deficit.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable losses, and differences relating to investments in subsidiaries 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 statement of financial position date.

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.

**Loss per share**

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average number of common shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**New and amended IFRS pronouncements**

The Company has adopted the following new and revised standards, along with any consequential amendments, effective June 1, 2013. These changes were made in accordance with the applicable transitional provisions and did not have a material impact on the Company's financial statements:

IFRS 10 Consolidated Financial Statements ("IFRS 10") replaces the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns.

IFRS 11 Joint Arrangements ("IFRS 11") supersedes IAS 31 Interests in Joint Ventures and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28 Investments in Associates and Joint Ventures (amended in 2011) ("IAS 28").

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate that nature, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 Fair Value Measurement ("IFRS 13") provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis.

The Company has adopted the amendments to IAS 1 Presentation of Financial Statements ("IAS 1"). These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified.

**New standards not yet adopted**

The Company is currently assessing whether or not the adoption of the following standards will have a material effect on the Company's future financial statements:

*IFRS 9, "Financial Instruments"*

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to their own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective on January 1, 2018. Early adoption is permitted and the standard is required to be applied retrospectively.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**New standards not yet adopted (cont'd...)**

*IAS 32, "Financial Instruments: Presentation"*

The IASB amended 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; and
- the unit of account for applying the offsetting requirements.

The amended standard is effective for annual periods beginning on or after January 1, 2014.

**4. EXPLORATION AND EVALUATION ASSETS – MINERAL PROPERTIES**

	<i>Purple Onion Claims</i>
Balance, May 31, 2012	\$ 70,000
Acquisition costs	75,000
Technical report	84,544
Balance, May 31, 2013	229,544
Government filing fees	22,536
Project management	507
<b>Balance, May 31, 2014</b>	<b>\$ 252,587</b>

**Title to mineral properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral claims and, to the best of its knowledge, title to all of its claims is in good standing. During the year ended May 31, 2014, the Company allowed certain of the Purple Onion Claims to lapse without renewal in an effort to focus future exploration on the Claims that management feels to have more potential.

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**4. EXPLORATION AND EVALUATION ASSETS – MINERAL PROPERTIES (cont'd...)**

**Purple Onion Claims**

During the year ended May 31, 2012, the Company acquired the Purple Onion Claims in the Northwest Territories, Canada. As consideration, the Company paid \$70,000 and issued 300,000 common shares valued at \$75,000. Pursuant to the agreement, the vendor will retain a net smelter royalty (“NSR”) of 0.5%. The Company can purchase the NSR by expending \$325,413 on exploration expenditures by September 19, 2013 and issuing an additional 100,000 common shares. The Company’s former President is also the President and a director of the vendor, Metallis Resources Inc. (formerly Coltstar Ventures Inc.).

During the year ended May 31, 2013, the Company paid Aurora Geosciences Ltd. \$84,544 to prepare a NI 43-101 compliant technical report on the property.

**5. LOAN PAYABLE**

During the year ended May 31, 2014, the Company received loan proceeds of \$20,000. The loan bore interest at 5% per annum and was repayable on demand, upon the Company having sufficient resources, in cash or in shares at the option of the lender. The loan was repaid with cash, in full, during the current year.

**6. SHARE CAPITAL AND RESERVES**

**Authorized**

As at May 31, 2014 and 2013, the authorized share capital of the Company is an unlimited number of common shares without par value.

**Issued**

During the year ended May 31, 2014, the Company issued a total of 3,035,001 common shares on the exercise of 3,035,001 warrants at \$0.10 per share for gross proceeds of \$303,500.

During the year ended May 31, 2013, the Company issued a total of 1,960,000 common shares on the exercise of 1,960,000 warrants at \$0.10 per share for gross proceeds of \$196,000. The Company also issued an additional 300,000 common shares in association with the Purple Onion Claims option agreement (Note 4).

**7. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

As at May 31, 2014, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

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**7. STOCK OPTIONS AND WARRANTS (cont'd...)**

Number of Options	Exercise Price	Expiry Date
12,500	\$ 5.20	January 18, 2015
<u>12,500</u>	2.40	May 20, 2015
<u>25,000</u>		

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, May 31, 2012	25,000	\$ 3.80
Options cancelled/expired	<u>-</u>	-
Balance, May 31, 2013 and 2014	25,000	\$ 3.80
Number of options currently exercisable	25,000	\$ 3.80

**Warrants**

As at May 31, 2014, the Company had no outstanding share purchase warrants.

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
As at May 31, 2012	8,500,000	\$ 0.10
Exercised	<u>(1,960,000)</u>	0.10
As at May 31, 2013	6,540,000	0.10
Exercised	(3,035,001)	0.10
Expired	<u>(3,504,999)</u>	0.10
As at May 31, 2014	-	\$ -

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**7. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Share-based compensation**

For the year ended May 31, 2014, the Company recorded \$Nil (2013 - \$Nil) as share-based compensation expense as no options were granted during the year.

**8. RELATED PARTY TRANSACTIONS**

During the year ended May 31, 2014, the Company entered into the following transactions with related parties:

- (a) The Company paid or accrued management fees of \$Nil (2013 - \$15,000) and rent of \$13,500 (2013 - \$9,500) to Brugas Holdings Inc., a company controlled by the Chief Financial Officer and director of the Company.
- (b) The Company paid or accrued management fees of \$Nil (2013 - \$15,000) and rent of \$Nil (2013 - \$1,849) to Raincoast Capital Inc., a company controlled by the former President and director of the Company.
- (c) The Company paid or accrued administrative fees of \$Nil (2013 - \$12,250) to the Company's former corporate secretary.

During the year ended May 31, 2013, the Company acquired the Purple Onion Claims from a company with a common director (Note 4).

As at May 31, 2014, \$Nil (2013 - \$15,000) is owed to directors and companies controlled by directors of the Company.

Amounts due to related parties were due to companies controlled by directors and officers, were unsecured, were non-interest bearing and had no specific terms of repayment.

**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	2014	2013
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

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There were no significant non-cash investing or financing transactions during the year ended May 31, 2014.

The significant non-cash investing and financing transaction during the year ended May 31, 2013 was the issuance of 300,000 common shares valued at \$75,000 to acquire the Purple Onion Claims (Note 4).

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**10. FINANCIAL AND CAPITAL RISK MANAGEMENT**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;  
and

Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities approximate their carrying values. The Company's other financial instrument, being cash, is measured at fair value using Level 1 inputs.

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

Credit Risk

The Company's credit risk is primarily attributable to cash. The Company has no significant concentration of credit risk arising from operations. Cash is held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2014, the Company had a cash balance of \$249,513 (2013 - \$25,718) and current liabilities of \$221 (2013 - \$15,247).

The Company has historically relied on equity and debt financings to satisfy its capital requirements and will continue to depend heavily upon equity capital and debt to finance its activities. There can be no assurance the Company will be able to obtain the required financing in the future on acceptable terms.

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**10. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

Interest rate risk

The Company is not exposed to risk in the event of interest rate fluctuations. The Company has not entered into any interest rate swaps or other financial arrangements that mitigate the exposure to interest rate fluctuations.

Foreign currency risk

The Company's functional currency is the Canadian dollar and the majority of its purchases are transacted in Canadian dollars. From time to time, the Company funds certain operations, exploration and administrative expenses in US\$ on a cash call basis using US\$ currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is not significant and therefore does not hedge its foreign exchange risk.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval and acceptance by regulatory authorities. The Company relies mainly on equity issuances and loans from related parties to raise new capital. In the management of capital, the Company includes the components of shareholders' equity. The Company prepares annual estimates of operating expenditures and monitors actual expenditures compared to the estimates in an effort to ensure that there is sufficient capital on hand to meet ongoing obligations. The Company's investment policy is to negotiate premium interest rates on savings accounts or to invest its cash in highly liquid short-term deposits with terms of one year or less and which can be liquidated at any time without interest penalty. The Company will require additional financing in order to provide working capital to fund costs for the current year. These financing activities may include issuances of additional debt or equity securities.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

**11. INCOME TAXES**

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

	2014	2013
Loss for the year	\$ (54,948)	\$ (142,871)
Expected income tax (recovery)	\$ (14,000)	\$ (36,000)
Change in statutory, foreign tax, foreign exchange rates and other	(45,000)	-
Change in unrecognized deductible temporary differences	59,000	36,000
Total income tax expense (recovery)	\$ -	\$ -

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**11. INCOME TAXES (cont'd...)**

The significant components of the Company's deferred tax assets that have not been included on the statement of financial position are as follows:

	2014	2013
Deferred tax assets (liabilities):		
Share issue costs	\$ 5,000	\$ 18,000
Allowable capital losses	97,000	94,000
Non-capital losses available for future periods	<u>934,000</u>	<u>871,000</u>
	1,036,000	983,000
Unrecognized deferred tax assets	<u>(1,036,000)</u>	<u>(983,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the statement of financial position are as follows:

	2014	2013	Expiry Date Range
Temporary differences:			
Share issue costs	\$ 21,000	\$ 73,000	2035 - 2036
Allowable capital losses	\$ 375,000	\$ 375,000	No expiry date
Non-capital losses available for future periods	<u>\$ 3,600,000</u>	<u>\$ 3,485,000</u>	2027 - 2034

Tax attributes are subject to review, and potential adjustment, by tax authorities.