KARIANA RESOURCES INC.

(An Exploration Stage Enterprise)

CONDENSED INERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months Ended September 30, 2014

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Kariana Resources Inc. (the "Company") for the nine months ended September 30, 2014 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

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

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

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

KARIANA RESOURCES INC.
(Expressed in Canadian Dollars, unless stated otherwise)
(An Exploration Stage Enterprise)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	September 30, 2014 $	December 31, 2013 $ (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents		5,417	1,140
Prepaid Expenses		10,000	-
Short-term investment		522,196	54,500
Receivable		10,861	14,383
Total Current Assets		548,474	70,023
TOTAL ASSETS		548,474	70,023
LIABILITIES			
Accounts payable & accrued liabilities		163,311	1,707
Convertible debenture	4	430,037	-
Total Current Liabilities		593,348	1,707
SHAREHOLDERS' EQUITY			
Share capital	5	1,062,791	1,022,791
Equity portion of convertible debenture	4	49,832	-
Reserves		102,140	102,314
Deficit		(1,259,637)	(1,056,789)
Total Shareholders' Equity		(44,874)	68,316
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		548,474	70,023

These condensed interim consolidated financial statements are authorized for issue by the Board of Directors on November 28, 2014. They are signed on the Company's behalf by:

"Herrick Lau"	Director	*"David Velisek"*	Director
Herrick Lau		David Velisek	

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

KARIANA RESOURCES INC.
(Expressed in Canadian Dollars, unless stated otherwise)
(An Exploration Stage Enterprise)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

	Notes	Three Months Ended September 30, 2014 $	Three Months Ended September 30, 2013 $	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
General and administrative expenses					
Accounting Fees		-	-	12,200	12,720
Consulting Fees		97,087	31,897	146,653	94,064
Advertising and promotions		-	-	5,000	-
Interest accretion on convertible debenture	4	17,431	-	23,327	-
Legal Fees		-	3,111	5,432	11,205
Management Fees		-	40,000	-	62,500
Meals and Travel Expenses		1,860	2,738	4,383	4,331
Office and General		289	2,941	3,796	6,661
Project Investigation		-	-	-	15,825
Transfer Agent and Filing Fees		3,365	3,363	18,698	15,830
Write off of Mineral Property		-	-	-	147,993
Loss before undernoted income (expenses)		(120,032)	(84,050)	(219,489)	(371,129)
Interest Income		1,413	470	1,759	2,295
Net loss and comprehensive loss for the period		(118,619)	(83,580)	(217,730)	(368,834)
Basic and diluted loss per share		$0.036	$0.028	$0.066	$0.123

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

KARIANA RESOURCES INC.
(Expressed in Canadian Dollars, unless stated otherwise)
(An Exploration Stage Enterprise)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

	Number of Shares	Common Shares $	Equity Portion of Convertible Debenture $	Reserves $	Deficit $	Shareholders' Equity (Deficiency) $
Balance – December 31, 2012	12,025,000	1,022,791	-	214,485	(727,160)	510,116
Loss for the period	-	-	-	-	(368,834)	(368,834)
Balance – September 30, 2013	12,025,000	1,022,791	-	214,485	(1,095,994)	141,282
Balance – December 31, 2013	3,006,250	1,022,791	-	102,314	(1,056,789)	68,316
Reclassification of reserves on expired options	-	-	-	(14,882)	14,882	-
Convertible debenture isuance cost for warrants	-	-	-	14,708	-	14,708
Convertible debenture issuance cost for shares	400,000	40,000	-	-	-	40,000
Equity portion of convertible debenture	-	-	49,832	-	-	49,832
Loss for the period	-	-	-	-	(217,730)	(217,730)
Balance – September 30, 2014	3,406,250	1,062,791	49,832	102,140	(1,259,637)	(44,874)

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

KARIANA RESOURCES INC.
(Expressed in Canadian Dollars, unless stated otherwise)
(An Exploration Stage Enterprise)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Cash provided by (used in):			
Operating activities			
Loss for the period		(217,730)	(368,834)
Adjustment for items not involving cash:			
Non-cash interest accretion on convertible debenture	4	23,327	-
Write-off of mineral properties		-	147,993
Changes in non-cash operating working capital:			
Prepaid expenses		(10,000)	
Short-term investment		(467,696)	(152,000)
Receivable		3,522	23,023
Accounts payable & accrued liabilities		161,604	22,983
Net change in operating activities		(506,973)	(326,835)
Investing activities			
Deferred exploration expenditures		-	(9,600)
Net change in financing activities		-	(9,600)
Financing activities			
Proceeds from convertible debentures		511,250	-
Net change in financing activities		511,250	-
Net change in cash		4,277	(336,435)
Cash, beginning of the period		1,140	347,959
Cash, end of the period		5,417	11,524

Non-cash transactions for the period ended September 30, 2014 consisted of shares issued as finder's fees of $40,000 (2013 – Nil) and warrants issued as finder's fee of $14,708 (2013 – Nil).

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

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated on September 14, 2010 pursuant to the provision of the *Business Corporations Act* (British Columbia). The Company is engaged primarily in the business of evaluating, acquiring and exploring natural resource properties. The Company's head office is located at 1980 – 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9, Canada. The Company's wholly-owned subsidiaries, 0994537 B.C. Ltd. and 0994540 B.C. Ltd., were incorporated on February 21, 2014 and remain inactive during the period ended September 30, 2014. The Company's shares commenced trading on the Canadian Securities Exchange under the trading symbol "KAA" on August 17, 2011.

The financial information is presented in Canadian Dollars, which is the functional currency of the Company.

The amounts shown as exploration and evaluation assets represent net costs to date, less any amounts amortized and/or written off, and do not necessarily represent present or future values. The recoverability of these amounts and any additional amounts required to place these assets into commercial production are dependent upon certain factors. These factors include the existence of ore deposits sufficient for commercial production and the Company's ability to obtain the required additional financing necessary to develop these assets. These uncertainties may cast significant doubt as to the company's ability to continue as a going concern.

The Company has working capital deficiency as at September 30, 2014 of $44,874 (2013 - $68,316). These consolidated financial statements have been prepared under the assumptions of a going-concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These condensed interim consolidated financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going-concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") on a basis consistent with the significant accounting policies disclosed in note 2 of the most recent annual financial statements as at and for the year ended December 31, 2013 as filed on SEDAR at www.sedar.com. The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

Basis of presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss that have been measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting and in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with IFRS as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

These condensed interim consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries, 0994537 B.C. Ltd. and 0994540 B.C. Ltd. All material intercompany transactions and balances between subsidiaries have been eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Basis of presentation (Cont'd…)

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange in effect at the end of each reporting period.

These condensed interim consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective or available on September 30, 2014.

Foreign currencies

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

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

Financing costs

The costs related to equity transactions are deferred until the closing of the equity transactions. These costs are accounted for as a deduction from equity. Transaction costs of abandoned equity transactions are expensed in the statement of comprehensive loss.

Short-term investment

Short-term investment, which is fixed term deposit held at the bank with a maturity of more than three months and less than twelve months at the time of issuance, is recorded at fair value. As at September 30, 2014, the Company has two short-term investments totalling to $261,500 of principal and $27 of interest due on July 11, 2015 with an annual yield of prime minus 1.95% and $892 of interest due on May 29, 2015 with an annual yield of prime minus 1.95%.

Exploration and evaluation assets

The Company's exploration and evaluation assets are intangible assets relating to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are at the exploration/pre-development stage.

No amortization charge is recognized in respect of exploration and evaluation assets. These assets are transferred to mine development assets, after testing for impairment, upon the commencement of mine development.

Exploration and evaluation expenditure in the relevant area of interest comprises costs which are directly attributable to:

- Acquisition;
- Surveying, geological, geochemical and geophysical;
- Exploratory drilling;
- Land maintenance;
- Sampling; and
- Assessing technical feasibility and commercial viability.

Exploration and evaluation expenditure related to an area of interest where the Company has tenure are capitalized as intangible assets and are recorded at cost less impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Exploration and evaluation assets (Cont'd…)

Exploration and evaluation expenditure also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operational activities in the relevant area of interest.

All capitalized exploration and evaluation expenditure is assessed for impairment for each reporting period and is impaired if facts and circumstances indicate that impairment may exist. In circumstances where a property is abandoned, the cumulative capitalized costs relating to the property are written off in the period.

Decommissioning and rehabilitation liabilities

The Company recognizes the fair value of a decommissioning and restoration liability the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the decommissioning and restoration liability due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

The Company did not have any significant decommissioning and restoration obligations.

Share-based payments

The share option plan allows Company employees (including directors and senior executives) and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Share-based payments also include the issuance of common shares.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve or share capital. No expense is recognized for awards that do not ultimately vest.

At the time when the share options are exercised, the amount previously recognized in reserves is transferred to share capital. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in reserves is transferred to accumulated losses.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payments arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Share-based payments (Cont'd…)

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

Comprehensive loss

Comprehensive loss is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale. The Company does not have any items representing comprehensive income or loss.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of outstanding common shares for the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants. The number of additional shares is calculated by assuming that outstanding stock options and warrants are exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In periods where a net loss is reported outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are anti-dilutive. Diluted loss per share is equal to the basic loss per share as net losses were reported during the periods presented.

Financial instruments – recognition and measurement

All financial assets and financial liabilities are initially recorded at fair value and designated upon inception into one of the following categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity instruments, loans and receivables and financial liabilities not at fair value through profit and loss are measured at amortized cost using the effective interest rate method.

The Company has implemented the following classifications for its financial instruments:

a) Cash has been classified as FVTPL;
b) Short-term investments have been classified as FVTPL;
c) Receivables have been classified as loans and receivables; and
d) Accounts payable and accrued liabilities and convertible debenture have been classified as financial liabilities not at fair value through profit and loss.

Impairment of financial assets

The Company assesses at the end of each reporting period whether a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Impairment of financial assets (Cont'd…)

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 to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an 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 to which the assets belong.

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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of operations.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, however the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Significant accounting judgements and estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions 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. Financial statements include 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 the revision affects both the current and future periods.

(Expressed in Canadian Dollars, unless stated otherwise)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the September 30, 2014 reporting period:

(a) Amendment to IAS 1, Presentation of Financial Statements

The amendments to IAS 1 revised the presentation of other comprehensive income (OCI). Separate subtotals are required for items which may subsequently be recycled through profit or loss and items that will not be recycled through profit or loss. The Company has updated the presentation of OCI on the face of the Statement of Comprehensive Income.

(b) IFRS 13, Fair Value Measurements

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

The adoption of IFRS 13 by the Company has had no material impact. The fair value of the available-for-sale investment has been determined directly by reference to published price quotations in an active market. Prior to adoption of IFRS 13 the Company measured the available for sale investment on the same basis.

In addition, the following new or amended standards and interpretations that are mandatory for 2014 annual periods have not had a material impact on the Company:

- IFRS 7 Financial Instruments: Disclosures: Amendments – Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IAS 19 Employee Benefits (Amendments)
- IFRIC 20 Stripping Costs in the Production Phases of a Surface Mine

3. EXPLORATION AND EVALUATION ASSETS

South Baird Property, Ontario, Canada

	$
Balance December 31, 2012	138,393
Alteration study	9,600
Property write-off during the period	(147,993)
Balance December 31, 2013 and September 30, 2014	-

On September 21, 2010, the Company signed an option agreement (the "Option Agreement") with Perry Vern English, for and on behalf of Rubicon Minerals Corporation (the "Optionor") to acquire an undivided 100% interest in the South Baird Property (the "South Baird Property"), subject to a 2% net smelter return ("NSR") to the Optionor, with an option buyout of 50% of the NSR for $1,000,000 upon or prior to the commencement of commercial production. The South Baird Property is located in the District of Red Lake Mining in the province of Ontario.

(Expressed in Canadian Dollars, unless stated otherwise)

3. EXPLORATION AND EVALUATION ASSETS (CONT'D…)

South Baird Property, Ontario, Canada (Cont'd…)

The Company entered into a finder's fee agreement dated November 25, 2010 in connection with the acquisition of the South Baird Property. The Company paid finder's fee in cash of $25,000 and issued 75,000 common shares on December 23, 2010.

Pursuant to the Option Agreement, the Company issued 100,000 common shares at $0.20 per share to the Optionor on August 17, 2011.

On July 8, 2013, the Company terminated the Option Agreement. The Company wrote off all the related exploration and evaluation assets expenses of the South Baird Property.

4. CONVERTIBLE DEBENTURE

(a) On May 22, 2014, the Company completed a non-brokered private placement of $250,000 aggregate principal amount of unsecured convertible debentures (the "Debentures"). The Debentures bear nil interest, mature on November 22, 2015 (the "Maturity Date") and are convertible, at the election of the holder, at any time between November 22, 2014 and the Maturity Date. Each Debenture is convertible into units of the Company (the "Units") at a price of $0.05 per Unit.

Each Unit consists of one common share of the Company and one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire an additional common share at a price of $0.10 until May 22, 2017.

A finder's fee of $54,708 was paid in 400,000 common shares of the Company at a deemed value of $0.10 per share and 400,000 finder's warrants. Each finder's warrants are exercisable at a price of $0.10 per share until May 22, 2017. The fair value of the warrants was estimated at $14,708 using the Black-Scholes options pricing model with the following assumptions: risk-free rate of 1.04%, expected life of 3 years, volatility of 150%, and dividend rate of 0%.

Opening balance, January 1, 2014	$	-
Gross proceeds on issuance of debentures		250,000
Valuation of conversion feature		(26,082)
Transaction costs		(54,708)
Accretion expense		16,388
Ending balance, September 30, 2014	$	185,598

(b) On June 11, 2014, the Company's wholly-owned subsidiary, 0994537 B.C. Ltd., completed a non-brokered private placement of $261,250 aggregate principal amount of unsecured convertible debentures (the "Debentures"). The Debentures bear nil interest, mature on June 11, 2015 (the "Maturity Date") and are convertible, at the election of the holder, at any time following June 11, 2014 and the Maturity Date. Each Debenture is convertible into units of 0994537 B.C. Ltd. (the "Units") at a price of $0.025 per Unit.

Each Unit consists of one common share of 0994537 B.C. Ltd. and one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire an additional common share of 0994537 B.C. Ltd. at a price of $0.10 until June 11, 2017.

(Expressed in Canadian Dollars, unless stated otherwise)

4. CONVERTIBLE DEBENTURE (CONT'D…)

Opening balance, January 1, 2014	$	-
Gross proceeds on issuance of debentures		261,250
Valuation of conversion feature		(23,750)
Accretion expense		6,939
Ending balance, September 30, 2014	$	244,439

5. CAPITAL AND RESERVES

A. Common Shares

Authorized: Unlimited number of common voting shares without nominal or par value.

B. Issued share capital

As at September 30, 2014, there were 3,406,250 common shares issued and outstanding (December 31, 2013 – 3,006,250).

i. On February 28, 2012, the Company issued 125,000 common shares of the Company at a value of $0.78 per share, for a total value of $97,500, to a former officer of the Company as a share-based payment towards a signing bonus.

ii. On January 27, 2014, the Company effected a consolidation of its capital on the basis of four (4) existing common share for one (1) new common share. All shares, options, warrants, and per share amounts were adjusted to reflect the consolidation ratio.

iii. On May 22, 2014, the Company completed a non-brokered private placement of $250,000 aggregate principal amount of unsecured convertible debentures. The Company paid a finder's fee of 400,000 common shares at a deemed value of $0.10 per share and 400,000 finder's warrants valued at $14,708 (see Note 4).

C. Share purchase option compensation plan

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which options may be granted to directors, officers, employees and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the common shares on the grant date. Options granted under the Plan including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

The continuity of stock options for the three months ended September 30, 2014 is as follows:

	September 30, 2014		December 31, 2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the period	157,500	$0.87	295,000	$0.83
Cancelled	(25,000)	$0.80	(137,500)	$0.79
Options outstanding and exercisable, end of the period	132,500	$0.89	157,500	$0.87

(Expressed in Canadian Dollars, unless stated otherwise)

5. CAPITAL AND RESERVES (CONT'D…)

C. Share purchase option compensation plan (Cont'd…)

The options outstanding and exercisable at September 30, 2014 are as follows:

Number Outstanding and Exercisable	Weighted Average Exercise Price $	Weighted Average Remaining Contractual Life (Years)
75,000	0.45	3.89
57,500	0.43	0.83
132,500	0.89	4.73

The Company did not grant any options during the period ended September 30, 2014 and in fiscal year 2013.

D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	September 30, 2014		December 31, 2013	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of the period	-	-	75,000	$0.80
Issued	400,000	0.10	-	-
Expired	-	-	(75,000)	$0.80
Warrants outstanding, end of the period	400,000	$0.10	-	-

As at September 30, 2014, 400,000 warrants were outstanding and the exercise price is $0.10 per warrant and expires on May 22, 2017.

6. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has not generated any revenues and cash flows since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of common shares. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. Management reviews its capital management approach on a regular basis. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

7. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

(Expressed in Canadian Dollars, unless stated otherwise)

7. RELATED PARTY TRANSACTIONS (CONT'D…)

		Nine Months Ended September 30,	
Services provided by:		2014	2013
Baron Global Financial Canada Ltd.	a	$105,000	$60,000
Pashleth Investment Ltd.	b	-	$22,500

(a) On April 1, 2014, the Company entered into an agreement with Baron Global Financial Canada Ltd. ("Baron") that is related by way of a common director of the Company. Baron provided corporate advisory services to the Company.

(b) Pashleth Investment Ltd. ("Pashleth") is owned by the former CEO and director of the Company. On December 31, 2013, the former CEO and director forgave amounts owing of $45,000 which was recorded as a cost recovery.

Related Party Payable:

	September 30, 2014	December 31, 2013
Baron Global Financial Canada Ltd.	$115,000	-

8. FINANCIAL INSTRUMENTS

Classification of Financial Instruments:

(a) Fair Values

Assets measured at fair value on a recurring basis were presented on the Company's balance sheet as at September 30, 2014 as follows:

	Fair Value Measurements Using				
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Balance, September 30, 2014 $	Balance, December 31, 2013 $
Cash	5,417	-	-	5,417	1,140
Short-term investment	522,196	-	-	522,196	54,500

The fair values of other financial instruments, which include receivables, and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments and loan payable.

(b) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash and short-term investment with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

8. FINANCIAL INSTRUMENTS (CONT'D…)

(c) Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure (Note 5).

(d) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest-bearing assets in relation to cash at banks and GIC carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instrument to hedge potential fluctuations in interest rates. The exposure to interest rates for the Company is considered minimal. The Company has no interest bearing borrowings.

The policies to manage interest rate risk have been followed by the Company during the prior year and are considered to be effective.

(e) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.