

**Rae-Wallace Mining Company**  
**(An exploration stage company)**

**Unaudited Interim Condensed Consolidated Financial Statements**

**For the three and nine month periods ended  
September 30, 2013 and 2012**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited interim condensed financial statements of Rae-Wallace Mining Company, are the responsibility of the management and Board of Directors of the Company.

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

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

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

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

"George Cole", CEO  
George Cole

"Greg Gibson", Director  
Greg Gibson

## **NOTICE TO READER**

The accompanying unaudited interim condensed financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim financial statements for the three and nine months ended September 30, 2013 and 2012 have not been reviewed by the Company's auditors.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(expresses in U.S. Dollars)

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 194,139	\$ 8,049
Trade and other receivables (Note 13)	13,579	10,774
Prepaid expenses	-	3,524
Assets of discontinued operations (Note 4)	-	47,121
<b>TOTAL CURRENT ASSETS</b>	<b>207,718</b>	<b>69,468</b>
<b>TOTAL ASSETS</b>	<b>\$ 207,718</b>	<b>\$ 69,468</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
CURRENT LIABILITIES:		
Accounts payable (Note 14)	\$ 119,168	\$ 566,254
Notes payable - related parties (Note 15)	5,612	129,933
Liabilities of discontinued operations (Note 4)	-	7,502
<b>TOTAL CURRENT LIABILITIES</b>	<b>124,780</b>	<b>703,689</b>
SHAREHOLDERS' EQUITY:		
Capital stock (Note 5)	3,343,832	3,250,960
Reserve for warrants (Note 9)	888,000	888,000
Reserve for share based payments (Note 8)	325,000	325,000
Reserve for foreign currency translation	(50,127)	(55,730)
Accumulated deficit	(4,423,767)	(5,042,451)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>82,938</b>	<b>(634,221)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 207,718</b>	<b>\$ 69,468</b>

Nature of Operations and Going Concern (Note 1)  
Commitments (Note 15)  
Segmented Information (Note 16)

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

**RAE-WALLACE MINING COMPANY****(An Exploration Stage Company)****UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(expressed in U.S. Dollars)**

	Three months ended,		Nine month periods ended,	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
<b>OPERATING EXPENSES:</b>				
Salaries & benefits (Note 10)	\$ -	\$ -	\$ -	\$ 86,292
Consulting fees (Note 10)	3,000	15,088	15,989	69,064
Exploration and evaluation expenditures	-	208,510	1,500	264,510
Share-based payments (Note 6)	-	7,000	-	16,000
Promotion and travel	-	-	-	13,024
Professional fees	8,586	18,806	63,115	99,884
Other general and administrative expenses	3,358	8,783	39,355	43,452
	(14,944)	(258,187)	(119,959)	(592,226)
Gain on forgiveness of debt	-	-	95,000	-
Foreign exchange (loss) gain	4,420	(7,043)	(1,135)	(6,609)
Income (loss) from continuing operations	(10,524)	(265,230)	(26,094)	(598,835)
Gain (loss) from discontinued operations	-	(88,775)	644,778	(332,484)
<b>NET INCOME (LOSS)</b>	<b>\$ (10,524)</b>	<b>\$ (354,005)</b>	<b>\$ 618,684</b>	<b>\$ (931,319)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>				
Net Income (Loss)	(10,524)	(354,005)	618,684	(931,319)
Exchange differences on translating foreign operations	-	(969)	5,603	(3,281)
Total Other Comprehensive Income (Loss)	(10,524)	(354,974)	624,287	(934,600)
<b>NET LOSS PER SHARE - BASIC AND DILUTED</b>				
Income (Loss) per share - from continuing operations	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.03)
Income (Loss) per share - from discontinued operations	\$ 0.00	\$ (0.00)	\$ 0.03	\$ (0.01)
Income (Loss) per share - net income (loss)	\$ (0.00)	\$ (0.01)	\$ 0.02	\$ (0.04)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING,</b>				
<b>BASIC AND DILUTED</b>	<b>25,222,900</b>	<b>24,856,088</b>	<b>25,222,900</b>	<b>23,781,966</b>

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

**RAE-WALLACE MINING COMPANY****(An Exploration Stage Company)****UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****(expressed in U.S. Dollars)**

	Common Stock		Reserve for Warrants	Reserve for Share based payments	Reserve for Foreign Currency Translation	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
Balance, January 1, 2012	23,237,800	\$ 3,052,450	\$ 822,000	\$ 309,000	\$ (58,754)	\$ (4,016,223)	108,473
Shares issued for property	1,985,100	198,510	-	-	-	-	198,510
Vested portion of stock options granted	-	-	-	16,000	-	-	16,000
Extension of warrants	-	-	66,000	-	-	-	66,000
Foreign currency translation	-	-	-	-	(3,281)	-	(3,281)
Net loss	-	-	-	-	-	(931,319)	(931,319)
Balance, September 30, 2012	25,222,900	\$ 3,250,960	\$ 888,000	\$ 325,000	\$ (62,035)	\$ (4,947,542)	(545,617)
Foreign currency translation	-	-	-	-	6,305	-	6,305
Net loss	-	-	-	-	-	(94,909)	(94,909)
Balance, December 31, 2012	25,222,900	\$ 3,250,960	\$ 888,000	\$ 325,000	\$ (55,730)	\$ (5,042,451)	(634,221)
Shares issued for settlement of debt	928,723	92,872	-	-	-	-	92,872
Foreign currency translation	-	-	-	-	5,603	-	5,603
Net income	-	-	-	-	-	618,684	618,684
Balance, September 30, 2013	26,151,623	\$ 3,343,832	\$ 888,000	\$ 325,000	\$ (50,127)	\$ (4,423,767)	82,938

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

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(expressed in U.S. Dollars)

	Nine month periods ended,	
	September 30, 2013	September 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 618,684	\$ (931,319)
Adjustments to reconcile net loss to net cash used by operating activities:		
Foreign exchange	5,603	(3,281)
Extension of warrants	-	66,000
Gain on disposal of subsidiary (Note 4)	(668,437)	-
Share based compensation (Note 6)	-	16,000
Shares issued for property	-	198,510
Changes in assets and liabilities:		
Prepaid expenses	3,524	(4,768)
Taxes and other receivables	(2,805)	6,977
Accounts payable and accrued liabilities	(354,214)	258,138
Net cash used by operating activities	(397,645)	(393,743)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of promissory notes (Note 15)	(124,321)	-
Proceeds from issuance of promissory notes (Note 15)	-	106,664
Net cash used by financing activities	(124,321)	106,664
Cash flow provided from discontinued operations	708,056	11,777
Net increase (decrease) in cash and cash equivalents	186,090	(275,302)
<b>CASH AT BEGINNING OF PERIOD</b>	8,049	308,315
<b>CASH AT END OF PERIOD</b>	\$ 194,139	\$ 33,013

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

**Rae-Wallace Mining Company**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**For the three and nine month periods ended September 30, 2013 and 2012**

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**General**

Rae-Wallace Mining Company (hereinafter “Rae-Wallace” or “the Company”) was incorporated under the laws of the State of Idaho in 1916. After several decades of dormancy, the Company reorganized in 1997 as an exploration stage company focused on evaluating, acquiring and exploring mineral prospects with potential for economic deposits of gold and silver. In 2011, the Company was re-domiciled to the Cayman Islands.

In 1998, the investor group controlling Rae-Wallace sold their entire interest to Silver Trend Mining Company for 1,500,000 shares of Silver Trend common stock. In 1999, Silver Trend sold the Company to a private investment group, which subsequently conveyed proportional interests to individual investors. In January 2007, the Company underwent a change of control with a new management group joining the Company. The Company’s fiscal year-end was changed to December 31, from June 30 during fiscal 2011.

On February 8, 2010, the Company incorporated Rae Wallace Peru S.A.C., a wholly owned Peruvian subsidiary. Rae Wallace Peru was incorporated to hold the Company’s Peruvian exploration properties. On April 3, 2013, the wholly owned Peruvian subsidiary was sold for a purchase price of \$US700,000.

**1. NATURE OF OPERATIONS AND GOING CONCERN**

At September 30, 2013 the Company had a working capital of \$82,938 (December 31, 2012 - \$634,221 working capital deficiency) had not yet achieved profitable operations, had accumulated losses of \$4,423,767 (December 31, 2012 - \$5,042,451) and expects to incur further losses in the development of its business, all of which raises substantial doubt upon the Company’s ability to continue as a going concern. Rae-Wallace will require additional financing in order to conduct its planned work programs on mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due.

These financial statements have been prepared on a going-concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption were not used then the adjustments required to report Rae-Wallace’s assets and liabilities on a liquidation basis could be material to these financial statements.

**Rae-Wallace Mining Company**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**For the three and nine month periods ended September 30, 2013 and 2012**

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## **2. BASIS OF PREPARATION**

### **2.1 Statement of compliance**

These unaudited interim condensed consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These unaudited interim condensed consolidated financial statements were authorized by the Board of Directors of the Company on November 22, 2013.

### **2.2 Basis of presentation**

These unaudited interim condensed consolidated financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company’s December 31, 2012 audited annual financial statements.

### **2.3 Adoption of new and revised standards and interpretations**

At the date of authorization of these Financial Statements, the International Accounting Standards Board (“IASB”) and the International Financial Reporting Issues Committee (“IFRIC”) has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted these standards, amendments and interpretations. However the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

- IFRS 9 ‘*Financial Instruments: Classification and Measurement*’ – effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- IAS 32 ‘*Financial instruments, Presentation*’ – In December 2011, effective for annual periods beginning on or after January 1, 2014, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date.



**Rae-Wallace Mining Company**  
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### **3. MINERAL PROPERTIES**

#### **Peru Property:**

On March 25, 2010 the Company entered into a letter of intent agreement with Geologix Explorations Inc. to acquire the right to earn a 100% interest in eight of the Company's Peruvian properties. The option agreement covered the Liscay, Largatija, Lachoc, Mirko, San Felipe, Sura, Toro Blanco and Cayhua properties (the "Properties") which are currently owned 100% by the Company. Portions of the Liscay, Largatija, Lachoc, and Mirko properties are subject to a 2% precious metals NSR and a 1% base metals NSR payable to Newmont Peru S.A.

On July 22, 2010, the Company entered into an option agreement with Fronteer Gold under which Fronteer Gold can earn a 51% interest in any two of the Peru projects held by the Company by making a one time payment of \$150,000 (received) and incurring expenditures on the properties of three times the previous expenditures on the projects.

On July 18, 2012, the Company entered into an agreement with Pilot Gold Inc. whereby Pilot Gold agreed to terminate its option to acquire a 51% in any two of the Company's Peruvian properties upon the closing of a transaction that results in the listing of the Company's common shares on a recognized stock exchange, in consideration for: (a) the issuance to Pilot Gold of 1,985,100 common shares of the Company; (b) the issuance to Pilot Gold of additional Common shares of the Company to maintain Pilot Gold 15.8% shareholdings of the Company; (c) the extension of the expiry date of the 1,000,000 ordinary share purchase warrants of the Company currently held by Pilot Gold to the date that is the later of: (i) July 23, 2014; and (ii) 24 months following the closing of the Company's initial public offering (or other transaction resulting in the listing of the Company's common shares on a recognized stock exchange); (d) the issuance to Pilot Gold of additional ordinary share purchase warrants, which if such warrants were exercised, would constitute 9.99% of the common shares of the Company after giving effect to the IPO; (e) the grant by Rae-Wallace to Pilot Gold of a 2% net smelter returns royalty; and (f) the grant by Rae-Wallace to Pilot Gold of a right of first offer in the event that the Company wishes to explore/develop any of the optioned projects with a third party.

On April 3, 2013, Rae-Wallace Mining Company completed the sale of its wholly owned subsidiary, Rae Wallace Peru S.A.C. (the "Rae Peru") which holds the Company's properties. The subsidiary was sold to an arm's length private company for the purchase price of USD\$700,000. See details in Note 4.

**Rae-Wallace Mining Company**  
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**4. DISCONTINUED OPERATIONS**

On April 3, 2013, Rae-Wallace Mining Company completed the sale of its wholly owned subsidiary, Rae Wallace Peru S.A.C. (the “Rae Peru”) which holds the Company’s properties. The subsidiary was sold to an arm’s length private company for the purchase price of USD\$700,000.

Operating results related to Rae Peru have been included in Discontinued Operations on the Consolidated Statements of Financial Position, the Consolidated Statements of Loss and Comprehensive Loss and the Consolidated Statements of Cash Flows for the three and nine month periods ended September 30, 2013 and 2012. Amounts related to the discontinued operations have been reclassified in the comparative period to conform to the current year presentation

As a result of the transaction, the Company recognized a gain on disposal of \$668,437 which was determined as follows:

Cash purchase price (USD)	\$ 700,000
<b>Net assets disposed of:</b>	
Cash and cash equivalents	10,283
Prepaid expenses	9,195
Property, plant and equipment	25,018
Accounts payable and accrued liabilities	(12,933)
	<u>31,563</u>
Gain on disposition	<u>668,437</u>

As a result of the completion of the transaction subsequent to year end, the Company reclassified the net income from its Rae Peru operations of \$nil and \$644,778 for the three and nine months ended September 30, 2013 as loss for the period from discontinued operations (three and nine months ended September 30, 2012 – loss of \$88,775 and \$332,484 respectively).

The breakdown of the income (loss) for the three and nine months ended September 30, 2013 and 2012 from discontinued operations is as follows:

	<b>Three months ended September 30, 2013</b>	Three months ended September 30, 2012	<b>Nine months ended September 30, 2013</b>	Nine months ended September 30, 2012
Salaries and benefits	-	(45,433)	-	(109,610)
Consulting	-	(10,700)	<b>(7,853)</b>	(57,254)
Exploration and evaluation	-	(8,409)	<b>(2,103)</b>	(80,572)
Promotion and travel	-	(2,228)	-	(7,340)
Depreciation	-	(1,521)	<b>(1,552)</b>	(4,531)
Other general and administrative expenses	-	(18,365)	<b>(5,280)</b>	(66,296)
Foreign exchange	-	(2,119)	<b>(6,871)</b>	(6,881)
Gain on disposal of subsidiary	-	-	<b>668,437</b>	-
<b>Income (Loss) from discontinued operations</b>	<b>-</b>	<b>(88,775)</b>	<b>644,778</b>	<b>(332,484)</b>

**Rae-Wallace Mining Company**  
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**4. DISCONTINUED OPERATIONS, (continued)**

The net cash flows provided from discontinued operations during the nine months ended September 30, 2013 was \$708,056 (June 30, 2012 - \$11,777 cash provided from).

**5. CAPITAL STOCK**

*Share Capital*

Rae-Wallace is authorized to issue an unlimited number of common shares. The issued and outstanding common shares consist of the following:

	Number	Amount (\$)
<b>Balance at January 1, 2012</b>	<b>23,237,800</b>	<b>3,052,450</b>
Issued for non-cash consideration:		
Shares issued for termination of property agreement (note 3)	1,985,100	198,510
<b>Balance at December 31, 2012</b>	<b>25,222,900</b>	<b>3,250,960</b>
Issued for non-cash consideration:		
Shares issued for settlement of debt	928,723	92,872
<b>Balance at September 30, 2013</b>	<b>26,151,623</b>	<b>3,343,832</b>

*Private Placements*

On June 30, 2013, the Company issued 928,723 common shares to certain creditors of the Company at a price of \$0.10 per common share in satisfaction of aggregate debts owed by the Company to these creditors in the amount of \$92,872 pursuant to debt settlement agreements entered into with the creditors.

On July 18, 2012, the Company issued 1,985,100 common shares to Pilot Gold pursuant to an agreement with Pilot Gold Inc. whereby Pilot Gold agreed to terminate its option to acquire a 51% in any two of the Company's Peruvian properties upon the closing of a transaction that results in the listing of the Company's common shares on a recognized stock exchange (note 3).

**6. SHARE BASED PAYMENTS**

Rae-Wallace established a stock option to provide additional incentive to its officers, directors, employees and consultants in their effort on behalf of the Company in the conduct of its affairs. The Plan authorizes the granting of up to 10,000,000 stock options to employees, directors and consultants. Options vest immediately and expire on the fifth anniversary from the date of issue unless otherwise specified.

A summary of stock options issued and outstanding is as follows:

	September 30, 2013		December 31, 2012	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Outstanding at beginning of period/year	\$ 0.22	2,460,000	\$ 0.22	2,460,000
Transaction during the period/year:				
Granted	-	-	-	-
Exercised	-	-	-	-
Outstanding at end of period/year	0.22	2,460,000	0.22	2,460,000
Exercisable at end of period/year	\$ 0.22	2,460,000	\$ 0.22	2,460,000

**Rae-Wallace Mining Company**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
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**6. SHARE BASED PAYMENTS, (continued)**

The following table provides additional information about outstanding stock options at September 30, 2013:

	No. of Options Outstanding	Weighted Average Remaining Life (Years)		Weighted Average Exercise Price	No. of Options Currently Exercisable	Weighted Average Exercise Price – Exercisable Options
\$ 0.20	1,650,000	1.87	\$	0.20	1,650,000	\$ 0.20
\$ 0.25	810,000	2.07	\$	0.25	810,000	\$ 0.25
\$ 0.20 - \$0.25	2,460,000	1.94	\$	0.22	2,460,000	\$ 0.22

*Share based payments*

In October 2010, 810,000 options were issued to directors, officers and consultants of the Company. The options have an exercise price of \$0.25, and vested 1/3 immediately and 1/3 at each of October 2011 and 2012. These options expire after five years. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Model.

The following assumptions were made in estimating fair value: risk-free interest rate of 1.2%; volatility of 100.0%; expected life of 5 years; dividend yield of zero. The options were valued at \$0.14 per share, or \$116,000. Stock based compensation expense based on the vested portion amounted to \$38,280 in the six month year ended December 31, 2010 and \$61,720 during the year ended December 31, 2011, with the remaining \$16,000 expensed during the year ended December 31, 2012.

**7. WARRANTS**

Month of Expiry	No. of Warrants	Exercise Price (\$)
September 30, 2014	1,000,000	0.375
November 20, 2014	2,970,000	0.35
December 2, 2014	390,000	0.35
	4,360,000	

**8. RESERVE FOR SHARE BASED PAYMENTS**

	September 30, 2013	December 31, 2012
Balance at beginning of period/year	\$ 325,000	\$ 309,000
Share based payments	-	16,000
Balance at end of period/year	\$ 325,000	\$ 325,000

**Rae-Wallace Mining Company**  
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**9. RESERVE FOR WARRANTS**

	September 30, 2013	December 31, 2012
Balance at beginning of period/year	\$ 888,000	\$ 822,000
Extension of warrants	-	66,000
Balance at end of period/year	\$ 888,000	\$ 888,000

During the year ended December 31, 2012, 1,000,000 warrants previously expiring on September 30, 2012 issued to Pilot Gold were extended to expire the earlier of July 23, 2014 or 24 months from the completion of a going public transaction in return for Pilot Gold dropping its option agreement to acquire up to 51% of the Liscay property (note 3). The increase in fair value of the warrants of \$66,000 was booked to acquisition costs for the Liscay property.

**10. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION**

During the nine month period ended September 30, 2013, \$14,000 (2012 - \$45,000) was charged for services by the Chief Financial Officer.

These expenses have been measured at their exchange amount, being the amounts negotiated and agreed to by the parties to the transactions. As at September 30, 2013, \$3,000 (December 31, 2012 - \$108,414) of amounts due to related parties is included in accounts payable and accrued liabilities.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Remuneration, other than consulting fees, of Directors and key management personnel of the Company was as follows:

<i>Nine months ended September 30,</i>	<b>2013</b>		2012	
	<b>Salaries and benefits</b>	<b>Share based payments</b>	Salaries and benefits	Share based payments
George Cole, CEO	-	-	42,000	-
Steve Friberg, VP Exploration	-	-	42,000	-
<b>Total</b>	-	-	84,000	-

As of September 30, 2013 the Company has received various installment loans totaling CDN\$105,185 through the issuance of a promissory note to Irwin Professional Corporation, a corporation controlled by the corporate secretary of the Company. The promissory note carries an interest rate of prime plus 6% calculated based on the Bank of Canada prime rate and is repayable on demand. As of September 30, 2013, the Company has repaid the principal portion of the loan in full and the outstanding principal balance of the promissory note is \$nil.

As of September 30, 2013, the Company received a loan totaling USD\$25,000 through the issuance of a promissory note to George Cole, the Company's CEO. The promissory note carries an interest rate of 10% and is repayable on demand. As of September 30, 2013, the Company has repaid the principal portion of the loan in full and the outstanding principal balance of the promissory note is \$nil.

As of September 30, 2013, \$5,612 in interest accrued on the above promissory notes is still outstanding to be paid.

**Rae-Wallace Mining Company**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
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## **11. MANAGEMENT OF CAPITAL**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. 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 defines capital to include its shareholders' equity. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the nine month period ended September 30, 2013. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity, which is comprised of capital stock, reserves, and accumulated deficit, which as at September 30, 2013 totaled \$82,938 (December 31, 2012 - \$(634,221)).

The Company's objective when managing capital is to obtain adequate levels of funding to support its exploration activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the identification and development of precious metals deposits.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

## **12. FINANCIAL INSTRUMENTS**

### ***Fair Value of Financial Instruments***

The Company designed its cash as FVTPL, which is measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of the Company's cash, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these investments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject in and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

### ***Credit Risk***

The Company is not exposed to major credit risk attributable to customers. Additionally, the majority of the Company's cash is held with a high rated Canadian financial institution in Canada and the United States of America.

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**12. FINANCIAL INSTRUMENTS, (continued)**

***Interest Rate Risk***

The Company invests cash surplus to its operational needs in investment-grade short term deposits certificates issued by the bank where it keeps its Canadian and U.S. Bank accounts. The Company periodically assesses the quality of its investments with this bank and is satisfied with the credit rating of the bank and the investment grade of its short term deposits certificates. A change in the interest rate of 1% would cause interest income to change by less than \$1,950 (2012 - \$1,000).

***Foreign Currency Risk***

The Company's exploration and evaluation activities are substantially denominated in US dollars and Peruvian Soles. The Company's funds are predominantly kept in Canadian dollars, with a major Canadian financial institution. As at September 30, 2013, the Company believes that it is not exposed to major foreign currency risks.

***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 September 30, 2013, the Company had current assets of \$207,718 (December 31, 2012 - \$69,468) and current liabilities of \$124,780 (December 31, 2012 - \$703,689). All of the Company's financial liabilities and receivables have contractual maturities of less than 90 days and are subject to normal trade terms. Current working capital of the Company is \$82,938 (December 31, 2012 - \$634,221 working capital deficiency).

***Commodity Price Risk***

The Company's financial results and exploration and development activities have been, or may in the future be, adversely affected by declines in the price of gold, and/or other metals. Gold prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of commodities by various central banks, financial institutions, expectations of inflation or deflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, international supply and demand, speculative activities and increased production due to new mine developments, improved mining and production methods and international economic and political trends. The Company's revenues, if any, are expected to be in large part derived from mining and sale of gold or interests related thereto. The effect of these factors on the price of gold and therefore the economic viability of the Company's exploration projects, cannot accurately be predicted.

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**13. TRADE AND OTHER RECEIVABLES**

The Company's trade and other receivables arise from two main sources: trade receivables due from customers for services and sales and harmonized services tax ("HST") receivable due from government taxation authorities. These are broken down as follows:

	As at,	
	September 30, 2013	December 31, 2012
	\$	\$
HST Receivable	13,579	10,774
<b>Total Trade and Other Receivables</b>	<b>\$ 13,579</b>	<b>\$ 10,774</b>

Below is an aged analysis of the Company's trade and other receivables:

	As at,	
	September 30, 2013	December 31, 2012
	\$	\$
Over 3 months	13,579	10,774
<b>Total Trade and Other Receivables</b>	<b>\$ 13,579</b>	<b>\$ 10,774</b>

At September 30, 2013, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 12.

The Company holds no collateral for any receivable amounts outstanding as at September 30, 2013.

**14. TRADE AND OTHER PAYABLES**

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities, amounts payable for financing activities and payroll liabilities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade and other payables:

	As at,	
	September 30, 2013	December 31, 2012
	\$	\$
Less than 1 month	-	15,769
1-3 months	-	9,041
Over 3 months	119,168	548,946
<b>Total Trade and Other Payables</b>	<b>\$ 119,168</b>	<b>\$ 573,756</b>



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## **15. PROMISSORY NOTES PAYABLE**

As of September 30, 2013, the Company received various installment loans totaling CDN\$105,185 through the issuance of a promissory note to Irwin Professional Corporation, a corporation controlled by the corporate secretary of the Company. The promissory note carries an interest rate of prime plus 6% calculated based on the Bank of Canada prime rate and is repayable on demand. As of September 30, 2013, the Company has repaid the principal portion of the loan in full and the outstanding principal balance of the promissory note is \$nil.

As of September 30, 2013, the Company received a loan totaling USD\$25,000 through the issuance of a promissory note to George Cole, the Company's CEO. The promissory note carries an interest rate of 10% and is repayable on demand. As of September 30, 2013, the Company has repaid the principal portion of the loan in full and the outstanding principal balance of the promissory note is \$nil.

As at September 30, 2013, total principal and interest owing on the above notes was \$5,612 (December 31, 2012 - \$129,933). The amount owing at September 30, 2013 represents interest accrued on the loans.

## **16. SEGMENTED INFORMATION**

### **Operating Segments**

At September 30, 2013 the Company's operations comprise a single reporting operating segment engaged in mineral exploration in Peru. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8 '*Operating Segments*'. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent operating segment amounts.

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

### **Geographic Segments**

Rae-Wallace was in the business of mineral exploration and production in the country of Peru. As such, management has organized the Company's reportable segments by geographic area. The Peruvian segment was responsible for mineral exploration and production activities in that country while the Canadian segment manages corporate head office activities. Information concerning Rae-Wallace's reportable segments is as follows:

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**16. SEGMENTED INFORMATION, (continued)**

<b>For the period/year ended,</b>	<b>September 30, 2013</b>	December 31, 2012
	\$	\$
<b>Net income (loss)</b>		
North America	<b>642,342</b>	(668,888)
Peru	<b>(23,658)</b>	(357,340)
	<b>618,684</b>	(1,026,228)
<b>As at,</b>	<b>September 30, 2013</b>	December 31, 2012
<b>Total assets</b>		
North America	<b>207,718</b>	22,347
Peru	<b>-</b>	47,121
	<b>207,718</b>	69,468