

GEONOVUS MINERALS CORP.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013
(EXPRESSED IN CANADIAN DOLLARS)**

(UNAUDITED - PREPARED BY MANAGEMENT)

These financial statements have not been reviewed by the Company's auditor.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of GeoNovus Minerals Corp. for the three and six month periods ended February 28, 2014 has 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 interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed consolidated interim 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 consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

GEONOVUS MINERALS CORP.**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION****(EXPRESSED IN CANADIAN DOLLARS)****AS AT**

	February 28, 2014	August 31, 2013
ASSETS		
Current		
Cash and cash equivalents (Note 7)	\$ 2,559	\$ 17,245
Receivables (Note 8)	38,621	141,851
Prepaid expenses (Note 9)	64,964	7,048
Total current assets	106,144	166,144
Reclamation bonds (Note 11)	70,351	66,825
Exploration and evaluation expenditures (Note 12)	1,822,084	2,094,986
Total assets	\$ 1,998,579	\$ 2,327,955
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 13)	\$ 238,615	\$ 527,059
Loan payable (Note 13)	-	800
Flow through liability	-	12,205
Total liabilities	238,615	540,064
Shareholders' equity		
Capital stock (Note 14)	6,199,054	5,711,447
Reserves (Note 14)	458,863	413,194
Deficit	(4,897,953)	(4,336,750)
Total shareholders' equity	1,759,964	1,787,891
Total liabilities and shareholders' equity	\$ 1,998,579	\$ 2,327,955

Nature and continuance of operations (Note 1)**Commitments and contingencies** (Notes 12 and 17)**Subsequent events** (Note 18)**On behalf of the Board:**

_____, Director

"Mike England"

_____, Director

"Marvin Mitchell"

See accompanying notes to the consolidated financial statements.

GEONOVUS MINERALS CORP.**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE

	Three months ended February 28, 2014	Three months ended February 28, 2013	Six months ended February 28, 2014	Six months ended February 28, 2013
EXPENSES				
Management fees (Note 13)	\$ 12,000	\$ 22,500	\$ 24,000	\$ 45,000
Office, rent, and miscellaneous (Note 13)	41,358	62,721	86,808	126,096
Professional fees (Note 13)	15,583	48,458	27,043	135,306
Consulting fees	52,768	45,187	95,268	58,437
Property investigation costs	-	23,833	-	69,635
Share-based compensation (Note 14)	-	44,463	29,520	59,451
Shareholder communications and promotion	19,578	15,972	22,752	21,870
Transfer agent and filing fees	10,599	18,771	10,830	21,143
Travel and accommodation	-	-	-	4,128
Loss before disposals, write offs and other items	151,886	281,905	296,221	541,066
OTHER ITEMS				
Foreign exchange (gain) loss	(3,064)	(1,064)	(4,016)	1,161
Interest expense	3,413	3,089	4,651	2,535
Other income	(12,205)	-	(12,205)	-
Loss on disposition of investments	-	29,049	-	29,049
Write off of exploration and evaluation expenditures	-	542,905	393,382	542,905
	(11,856)	573,979	381,812	575,650
Net loss before income taxes	\$ 140,030	\$ 855,884	\$ 678,033	\$ 1,116,716
Deferred income tax recovery	(14,176)	-	(14,176)	-
Net loss for the period	\$ 125,854	\$ 855,884	663,857	\$ 1,116,716
Other comprehensive loss				
Items that may be subsequently reclassified to income				
Unrealized loss (gain) on available for sale investments	-	(1,951)	-	49
Reclassification of net unrealized loss	-	(29,049)	-	(29,049)
Total comprehensive loss	\$ 125,854	\$ 824,884	\$ 663,857	\$ 1,087,716
Basic and diluted net loss per common share	\$ 0.00	\$ 0.04	\$ 0.02	\$ 0.06
Weighted average number of common shares outstanding – basic and diluted (Note 4)	34,826,013	20,816,480	31,873,742	18,383,699

See accompanying notes to the consolidated financial statements.

GEONOVUS MINERALS CORP.**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS****(EXPRESSED IN CANADIAN DOLLARS)****FOR THE SIX MONTHS ENDED FEBRUARY 28**

	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (663,857)	\$ (1,116,716)
Items not affecting cash:		
Share-based compensation	29,520	59,451
Write off of exploration and evaluation expenditures	393,382	542,905
Other income	(12,205)	-
Deferred income tax recovery	(14,176)	-
Loss on disposition of investment	-	29,049
Unrealized foreign exchange	(3,526)	(3,551)
	<u>(270,862)</u>	<u>(488,862)</u>
Change in non-cash working capital items:		
Decrease (increase) in receivables	(14,309)	22,656
Decrease (increase) in prepaid expenses	(57,916)	13,950
Increase (decrease) in accounts payable and accrued liabilities	(131,233)	82,055
	<u>(474,320)</u>	<u>(370,201)</u>
Net cash flows from operating activities		
	<u>(474,320)</u>	<u>(370,201)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placements	567,500	480,240
Share issue costs	(7,270)	(22,181)
Proceeds from option exercises	5,000	-
Loan payable	(800)	-
Net cash flows from financing activities	<u>564,430</u>	<u>458,059</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(104,796)	(231,013)
Sale of investment	-	7,951
Net cash flows from investing activities	<u>(104,796)</u>	<u>(223,062)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	-	1,463
(Decrease) increase in cash and cash equivalents	(14,686)	(133,741)
Cash and cash equivalents, beginning of period	17,245	142,827
Cash and cash equivalents, end of period	\$ 2,559	\$ 9,086
Cash paid for taxes during the period	-	-

Supplemental disclosure with respect to cash flows (Note 15)**See accompanying notes to the consolidated financial statements.**

GEONOVUS MINERALS CORP.
**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)**

	Number of Shares	Capital Stock	Equity settled share-based payments reserve	Warrant reserve	Available for sale revaluation reserve	Deficit	Total
Balance, August 31, 2012	15,977,652	5,296,204	139,350	106,670	(29,000)	(3,017,179)	2,496,045
Issued pursuant to private placements	7,187,250	370,595		95,399			465,994
Share-based compensation	-	-	59,451	-	-	-	59,451
Share issue costs-cash	-	(23,703)		(5,956)			(29,659)
Share issue costs- non cash	-	(1,899)		1,899			-
Net loss and comprehensive loss for the six month period ended February 28, 2013	-	-	-	-	29,000	(1,116,716)	(1,087,716)
Balance, February 28, 2013	23,164,902	5,641,197	198,801	198,012	-	(4,133,895)	1,904,115
Issued pursuant to private placements	1,200,000	42,946	-	17,054	-	-	60,000
Issued pursuant to acquisition of mineral interests	700,000	29,000	-	-	-	-	29,000
Share-based compensation	-	-	-	-	-	-	-
Share issue costs-cash	-	(1,696)	-	(673)	-	-	(2,369)
Share issue costs-non cash	-	-	-	-	-	-	-
Net loss and comprehensive loss for the six months ended August 31, 2013	-	-	-	-	-	(202,855)	(202,855)
Balance, August 31, 2013	25,064,902	\$ 5,711,447	\$ 198,801	\$ 214,393	\$ -	\$ (4,336,750)	\$ 1,787,891
Issued pursuant to private placements	11,350,000	427,489	-	140,011	-	-	567,500
Issued pursuant to acquisition of mineral interests	1,500,000	60,000					60,000
Share-based compensation	-	-	29,520	-	-	-	29,520
Exercise of options	100,000	5,000	-	-	-	-	5,000
Fair value of exercised options	-	4,217	(4,217)	-	-	-	-
Expiry of options	-	-	(7,785)	-	-	7,785	-
Expiry of warrants	-	-	-	(109,045)	-	109,045	-
Tax effect of warrant expiry	-	-	-	-	-	(14,176)	(14,176)
Share issue costs-cash	-	(8,942)	-	(2,972)	-	-	(11,914)
Share issue costs-non cash	-	(157)	-	157	-	-	-
Net loss and comprehensive loss for the six months ended February 28, 2014	-	-	-	-	-	(663,857)	(663,857)
Balance, February 28, 2014	38,014,902	6,199,054	216,319	242,544	-	(4,897,953)	1,759,964

GEONOVUS MINERALS CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013

1. NATURE AND CONTINUANCE OF OPERATIONS

GeoNovus Minerals Corp. (hereafter the "Company" or "GeoNovus") was incorporated on October 11, 2011 under the laws of the Business Corporation Act (BC) as a wholly owned subsidiary of Geo Minerals Ltd. ("Geo"). The Company's principal business is the acquisition and exploration of mineral properties. As part of a plan of arrangement ("Arrangement"), GeoNovus acquired assets from Geo in exchange for shares which were distributed to Geo's shareholders. As shareholders of Geo ultimately continued to hold their respective interests in the transferred net assets, there was no change in control. Accordingly, these condensed consolidated interim financial statements have been prepared on a continuity-of-interest basis. On December 21, 2011, the Arrangement was completed and GeoNovus became a reporting issuer. The Company began trading on the TSX Venture Exchange under the symbol "GNM" on January 5, 2012.

The Company's head office is located at 789 West Pender Street, Suite 1220, Vancouver, BC, V6C 1H2.

The condensed consolidated interim financial statements were approved by the Board of Directors on April 4, 2014.

Although the Company has taken steps to verify title to its exploration and evaluation properties, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and noncompliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

As at February 28, 2014, the Company had a working capital deficiency of \$132,471 (August 31, 2013 – working capital deficiency of \$373,920) and an accumulated deficit of \$4,897,953 (August 31, 2013 - \$4,336,750). These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Continued operations of the Company are dependent on the Company's ability to receive financial support, complete a public equity financing, or generate profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations; however, there is no assurance that these funds will be available on terms acceptable to the Company or at all. (Note 18) There is significant doubt as to whether the Company will be able to continue as a going concern. These condensed consolidated interim financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these condensed consolidated interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes.

3. BASIS OF PRESENTATION

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for investments classified as available-for-sale or held-for-trading which are stated at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company and its wholly owned subsidiaries is the Canadian dollar.

In the preparation of these condensed consolidated interim financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

GEONOVUS MINERALS CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (EXPRESSED IN CANADIAN DOLLARS) FOR THE SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to the periods presented in these condensed consolidated interim financial statements, unless otherwise stated.

Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company, and its wholly-owned subsidiaries, Juturna Geothermal Inc. incorporated under the laws of B.C., Geo Minerals (Arizona) Ltd. and Juturna Geothermal (Arizona) Inc. incorporated under the laws of Arizona, and 2009812 Delaware, Inc. incorporated in the state of Delaware. Significant inter-company balances and inter-company transactions have been eliminated upon consolidation. All references to the Company should be treated as references to GeoNovus Minerals Corp. and its subsidiaries. In July 2013, the Company decided to dissolve Juturna Geothermal (Arizona) Inc. and 2009812 Delaware Inc. as these subsidiaries were inactive.

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with original maturities of 90 days or less which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and are available on demand by the Company.

Financial instruments

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are measured at fair value with subsequent changes in fair value recognized in the statement of loss and comprehensive loss. Currently, the Company has no held-for-trading financial assets.

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held to maturity financial assets are recognized in the statement of loss and comprehensive loss. Currently, the Company has no held-to-maturity financial assets.

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in the statement of loss and comprehensive loss. The Company's cash balance and receivables are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying values because of the limited terms of these instruments.

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity or loans or receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income. Available-for-sale investments are written down to fair value through operations whenever it is necessary to reflect other than temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in operations. Regular way purchases and sales of financial assets are accounted for at the trade date. The Company's investments were classified as available-for-sale assets.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities that are not classified as held-to-maturity are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in the statement of loss and comprehensive loss. The Company's accounts payable and accrued liabilities and loans payable are classified as other financial liabilities.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at February 28, 2014 and August 31, 2013, the Company had no financial instruments that were carried at fair value.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in the statement of loss and comprehensive loss.

If in a subsequent period, the amount of 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 the statement of loss and comprehensive loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of loss and comprehensive loss.

Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the statement of loss and comprehensive loss.

Foreign currency translation

The Canadian dollar is the functional and reporting currency of the Company. Under this method, all monetary assets and liabilities are translated at the rate of exchange at the statement of financial position date and non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the statement of financial position date. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities are recognized in the statement of loss and comprehensive loss.

GEONOVUS MINERALS CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exploration and evaluation expenditures

All of the Company's property interests are in the exploration and evaluation phase. The Company records its interests in properties and areas of geological interest at cost. Expenditures incurred prior to obtaining the legal right to explore are expensed. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the reserves available on the related property following commencement of production. The Company classifies the costs between intangibles and property and equipment based on the nature of the costs incurred.

The cost of property interests includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Acquisition costs of properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition costs and their related exploration and evaluation costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its mineral exploration properties on a periodic basis and when events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of revenues from the property or from the sale of the property.

Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of-production method. Changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation impact the carrying value of the asset and liability. The related liability is adjusted each period for the unwinding of the discount rate with a corresponding charge to the statement of loss and comprehensive loss. As at February 28, 2014 and August 31, 2013, the Company had no material restoration, rehabilitation or environmental obligations.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at February 28, 2014 and August 31, 2013.

GEONOVUS MINERALS CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

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 fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value of stock options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity settled share-based payments reserve account. 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, including directors of the Company.

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

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 payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Unexercised expired stock options and warrants are transferred to deficit.

Income taxes

Income tax on the profit or loss for the period presented 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, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the 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 provided 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. 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 financial position reporting 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. Deferred tax assets are reviewed at each reporting date and to the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recognized.

Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the period ended February 28, 2014 and February 28, 2013, the outstanding stock options and warrants were anti-dilutive.

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FOR THE SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive loss

Other comprehensive loss represents the change in net equity for the period that arises from unrealized gains and losses on available-for-sale financial instruments. Amounts included in other comprehensive loss are shown net of tax. Cumulative changes in other comprehensive loss are presented separately in the statement of changes in equity.

Use of estimates

The preparation of these consolidated interim financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material. The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Carrying values for assets and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred during the period have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of operating facilities, operating management expertise and existing permits.

Impairment of exploration and evaluation assets

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

Estimation of decommissioning and restoration costs and the timing of expenditure

Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes and recoverability of potential deferred tax assets (Continued)

changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Adoption of new and amended IFRS pronouncements

We have adopted the new and amended IFRS pronouncements listed below as at September 1, 2013, in accordance with the transitional provisions outlined in the respective standards.

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company adopted IFRS 10 effective September 1, 2013. The adoption of IFRS 10 did not have a material impact the Company's financial statements.

IFRS 11 Joint Arrangements ("IFRS 11") replaces IAS 31, Interests in Joint Ventures. The new standard defines two types of arrangements: Joint Operations and Joint Ventures. The focus of the standard is to reflect the rights and obligations of the parties involved in the joint arrangement, regardless of whether the joint arrangement operates through a separate legal entity. Joint Arrangements that are classified as joint ventures are accounted for using the equity method of accounting. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. The Company does not have any interests in joint operations or arrangements therefore the adoption of IFRS does not result in any change to the Company's financial statements.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. The adoption of this standard did not result in any changes to the Company's disclosure requirements for interests in other entities.

IFRS 13, Fair Value Measurement ("IFRS 13") defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements for fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement, so assumptions that market participants would use should be applied in measuring fair value. The Company adopted IFRS 13 effective September 1, 2013. The adoption of IFRS 13 did not materially impact the Company's financial statements.

IAS 28 Investments in Associates and Joint Ventures ("IAS 28") was issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 also provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and amended IFRS pronouncements (Continued)

joint ventures should be tested for impairment. The Company adopted IAS 28 effective September 1, 2013. The adoption of IAS 28 did not have a material impact the Company's financial statements.

Future accounting changes

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after September 1, 2013 or later periods.

IFRS 9 Financial Instruments: Classification and Measurement ("IFRS 9"), 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. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning September 1, 2018, and has not yet considered the potential impact of the adoption of IFRS 9.

IAS 32 Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted. The Company has not yet considered the potential impact of the adoption of IAS 32 on its consolidated financial statements.

IAS 36 Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted. The Company has not yet considered the potential impact of the adoption of IAS 36 on its consolidated financial statements.

5. 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 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. Management considers the Company's capital structure to primarily consist of the components of shareholders' equity.

The Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts 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 period ended February 28, 2014. The Company and its subsidiaries are not subject to externally imposed capital requirements.

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6. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes to the Company's approach to mitigating risk exposures during the period ended February 28, 2014.

Credit risk

The Company's credit risk is primarily attributable to receivables. The receivables relate to sales tax due from the Federal Government of Canada and amounts due from related parties. The Company has no significant concentration of credit risk arising from operations. Management expects that repayment of the receivable from related parties will occur, however, it does anticipate that the repayment term will be longer than desirable.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure it has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from private placements to meet its operating requirements, after taking into account existing cash and expected exercise of share purchase warrants and options. The Company requires additional equity financing to fund its fiscal 2014 work programs and operating expenditures. Management believes that it will be successful in raising the necessary funds however, given the current market conditions, management believes that the raising of the required funds will take longer than is normal and will be at prices that may be less than desirable. There are no assurances that additional funds will be available on terms acceptable to the Company or at all.

Interest risk

The Company has cash and cash equivalent balances and no interest-bearing debt therefore, interest rate risk is minimal.

Foreign currency risk

The Company's functional and presentation currency is the Canadian dollar. Certain expenditures are transacted in foreign currencies. As a result, the Company is exposed to fluctuations in these foreign currencies relative to the Canadian dollar. Management does not hedge its foreign exchange risk. A 1% change in foreign exchange rates between the Canadian and US dollar at February 28, 2014 would not have a material impact on the Company's financial statements.

Commodity price risk

Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price. A decline in the market price of commodities may also require the Company to reduce its mineral resources, which would have a material and adverse effect on the Company's value. As at February 28, 2014, the Company is not in production. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company does not expect any material movements in the underlying market risk variables over the next three months that will result in a material impact to its financial statements.

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7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of the following items:

	February 28, 2014	August 31, 2013
Cash balances	\$ 2,559	\$ 17,245
Total	\$ 2,559	\$ 17,245

8. RECEIVABLES

The receivables balance is comprised of the following items:

	February 28, 2014	August 31, 2013
Sales tax due from Federal Government	\$ 19,021	\$ 4,712
Due from related parties (Note 13)	14,700	14,700
Other	4,900	4,900
Due from exploration partner	-	117,539
Total	\$ 38,621	\$ 141,851

9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	February 28, 2014	August 31, 2013
Advances	\$ 46,666	\$ -
Shareholder communication	3,750	-
Consultants	7,500	-
Rent (Note 13)	7,048	7,048
Total	\$ 64,964	\$ 7,048

10. INVESTMENTS

In September 2010, the Company received 200,000 shares of Hawkeye Gold & Diamond Inc. ("Hawkeye") pursuant to the terms of the option agreement for the Scotia Property dated July 2010. The value of the shares on acquisition date, using quoted market prices, was \$37,000. During fiscal 2013, the Company sold its Hawkeye shares for net proceeds of \$7,951.

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11. RECLAMATION BONDS

The reclamation bond balance relates to the following mineral exploration properties:

	February 28, 2014	August 31, 2013
Scotia	\$ 5,040	\$ 5,040
Red Hills	39,305	37,183
Middle Mountain	26,006	24,602
Total	\$ 70,351	\$ 66,825

12. EXPLORATION AND EVALUATION EXPENDITURES

During the six months ended February 28, 2014, expenditures incurred on mineral exploration properties were as follows:

	Scotia Property, BC	Red Hills, Arizona	Silver Bell West, Arizona	Mink Lake, Ontario	Shakespeare, Ontario	Six months ended February 28, 2014	Year ended August 31, 2013
	\$	\$	\$	\$	\$	\$	\$
Acquisition Costs:							
Balance, beginning of the period	297,721	118,815	203,249	30,725	-	650,510	741,029
Additions during the period	-	-	-	-	61,475	61,475	30,725
	297,721	118,815	203,249	30,725	61,475	711,985	771,754
Write-offs during the period	-	(118,815)	-	-	-	(118,815)	(121,244)
Balance, end of period	297,721	-	203,249	30,725	61,475	593,170	650,510
Deferred Exploration Costs:							
Balance, beginning of period	637,698	274,567	522,351	9,860	-	1,444,476	1,541,442
Reports and surveys	-	-	-	29,000	-	29,000	-
Assays and lab tests	-	-	-	-	-	-	2,236
Geological consulting	-	-	971	15,500	-	16,471	78,103
Equipment rental	-	-	-	-	-	-	5,161
Field expenses	-	-	-	-	-	-	6,096
Licences, permits and maintenance fees	-	-	35	-	-	35	27,746
Drilling and transportation	-	-	-	-	-	-	183,416
Travel and accommodation	-	-	-	13,365	-	13,365	14,096
Administration and other	-	-	134	-	-	134	7,841
	637,698	274,567	523,491	67,725	-	1,503,481	1,866,137
Write-offs during the period	-	(274,567)	-	-	-	(274,567)	(421,661)
Balance, end of period	637,698	-	523,491	67,725	-	1,228,914	1,444,476
Total	935,419	-	726,740	98,450	61,475	1,822,084	2,094,986

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12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

In October 2013, the Company entered into an option agreement to acquire the Corona Project mining claims which include the historic Shakespeare Gold Mine, located northeast of Webbwood, Ontario. The Corona Project consist of 95 contiguous claims. As consideration for the acquisition, the Company will issue 1,500,000 shares and incur \$300,000 in exploration expenditures over a period of two years. The vendor retains a 2% NSR of which 1% can be purchased for \$2.0 million. In January 2014, the Company issued 1,500,000 shares valued at \$60,000 pursuant to the terms of the Shakespeare option agreement.

Due to the disappointing results of the 2013 drill and ground geophysical programs on the Red Hills project, the Company does not anticipate conducting any additional exploration. All capitalized costs have been written off accordingly.

The Company is currently in default on the terms of the Silver Bell project however it is attempting to renegotiate the terms.

13. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them.

Trading Transactions

The Company entered into the following transactions with related parties:

	Nature of transactions	Notes	Six months ended	
			February 28, 2014	February 28 2013
England Communications	Wages, rent and office services	a, b	\$ 104,250	\$ 173,013
Olga Nikitovic	Professional fees	c	\$ 21,000	\$ 30,000
Paul Gray Geological	Consulting fees	d	\$ -	\$ 7,013

- a) The Company incurred rent and office expenses of \$18,000 (2013 - \$18,000) charged by England Communications, a company controlled by a director and officer of the Company. The charges are included in office, rent and miscellaneous expense. As at February 28, 2014, \$7,048 (2013-\$10,048) of rent was included in prepaids and \$3,000 (2013 - \$3,000) was included in accounts payable.
- b) The Company pays wages, including employer contributions, directly to England Communications, a management company controlled by a director and officer of the Company. During the six months ended February 28, 2014, the Company incurred \$86,250 (2013- \$155,013) in salaries of which \$24,000 (2013 - \$45,000) represents management fees for the CEO and \$9,000 (2013- \$15,000) represents salary for the current Corporate Secretary. These charges are recorded as management fees and office, rent and miscellaneous expense, respectively. The remaining balance of \$53,250 (2013- \$95,013) was included in office, rent and miscellaneous expense. As of February 28, 2014, \$27,159 (2013-\$5,910) was included in accounts payable.
- c) The Company incurred \$21,000 (2013 - \$30,000) charged by the current CFO of the Company. The amount is included in professional fees. As at February 28, 2014, \$21,525 (2013-\$Nil) was included in accounts payable.
- d) The Company incurred \$Nil (2013 - \$7,013) of consulting fees from a company controlled by a director. \$Nil (2013 - \$6,788) of the fees is charged to exploration and evaluation expenditures and \$Nil (2013 - \$225) is included in consulting expense.

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13. RELATED PARTY TRANSACTIONS (Continued)

In June 2013, the Company obtained a loan of \$800 from England Communications. The loan was non-interest bearing and was repayable on demand. The loan was repaid on October 9, 2013. On October 20, 2013 the Company obtained a \$1,000 loan from England Communications. The loan was repaid in December 2013.

In fiscal 2012, the Company paid for the cost of a media campaign which was to be utilized by four other companies, three of which are related by virtue of two common officers and directors. A receivable of \$14,700 has been set up to reflect the portion of the cost to be repaid by Alix Resources Corp., Ashburton Ventures Inc., and Caribou King Resources Ltd.

England Communication subscribed for 500,000 units of the September 2013 private placement for gross proceeds of \$25,000. Certain directors and officers of the Company subscribed for 800,000 units of the same private placement for gross proceeds of \$40,000.

England Communication subscribed for 350,000 units of the February 2014 private placement for gross proceeds of \$17,500.

Compensation of key management personnel

	Notes	Six months ended	
		February 28, 2014	February 28, 2013
Salaries	a	\$ 54,000	\$ 90,000
Share-based payments	b	\$ 12,651	\$ 21,574

a) The Company does not pay any directors' fees nor does the Company pay any health or post employment benefits. The salaries include the fees for the CEO, CFO and Corporate Secretary included in trading transactions above.

b) Share-based payments are the grant date fair value of options granted to key management (CEO, CFO, and Corporate Secretary) and directors.

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS**Capital Stock**

The Company has authorized an unlimited number of common shares without par value. As at February 28, 2014, the Company had 38,014,902 common shares outstanding. The common shares outstanding at August 31, 2013 were 25,064,902.

On September 23, 2013, the Company completed a private placement with the issuance of 5,150,000 units at a price of \$0.05 per unit for gross proceeds of \$257,500 of which \$57,658 was allocated to warrants. Each unit consisted of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one share at an exercise price of \$0.075 per share for the first year after closing and \$0.10 for the second year following closing. Share issue costs totalled \$4,538 of which \$1,016 was allocated to warrants.

In October 2013, the Company issued 100,000 common shares pursuant to the exercise of options for gross proceeds of \$5,000.

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

In December 2013, the Company completed a non-brokered private placement of 4,200,000 flow-through units at a price of \$0.05 per unit for aggregate gross proceeds of \$210,000 of which \$55,371 was allocated to warrants. Each unit consisted of one common share and one share purchase warrant of the Company. Each Warrant will entitle the holder to purchase one share for a period of 24 months from the closing date at an exercise price of \$0.075 per share. Finder's fees of \$1,000 were paid and 20,000 compensation warrants valued at \$216 were issued. The compensation warrants are exercisable at \$0.10 for a period of two years. Cash share issue costs of \$5,140 were incurred of which \$1,353 was allocated to warrants

In February 2014, the Company completed a non-brokered private placement of 2,000,000 units at a price of \$0.05 per unit for aggregate gross proceeds of \$100,000 of which \$26,982 was allocated to warrants. Each unit consisted of one common share and one share purchase warrant of the Company. Each Warrant will entitle the holder to purchase one share for a period of 24 months from the closing date at an exercise price of \$0.075 per share. Cash share issue costs of \$2,336 were incurred of which \$603 was allocated to warrants

In January 2014, the Company issued 1,500,000 shares valued at \$60,000 pursuant to the terms of the Shakespeare option agreement.

Share purchase warrants

At February 28, 2014, warrants were outstanding enabling holders to acquire shares as follows:

Expiry Date	Exercise Price \$	Number of warrants	Remaining contractual life (years)	Currently exercisable	Remaining contractual life (years)
June 21, 2014	0.10	4,923,000	0.31	4,923,000	0.31
June 28, 2014	0.12	871,250	0.33	871,250	0.33
July 29, 2014	0.10	1,393,000	0.41	1,393,000	0.41
August 29, 2014	0.075	1,200,000	1.50	1,200,000	1.50
	then				
August 29, 2015	0.10				
September 23, 2014	0.075	5,150,000	1.56	5,150,000	1.56
	then				
September 23, 2015	0.10				
December 20, 2015	0.075	3,200,000	1.80	-	-
December 20, 2015	0.10	20,000	1.80	-	-
December 30, 2015	0.075	1,000,000	1.83	-	-
February 6, 2016	0.075	2,000,000	1.93	-	-
		19,757,250	1.20	13,537,250	0.90

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)**Share purchase warrants (Continued)**

The following is a summary of the warrant transactions during the six month period ended February 28, 2014 and the year ended August 31, 2013:

	Six months ended February 28, 2014		Year ended August 31, 2013	
	Number Of Warrants	Weighted Average Exercise Price \$	Number Of Warrants	Weighted Average Exercise Price \$
Balance, beginning of the period	11,217,500	0.12	2,567,500	0.20
Warrants issued pursuant to private placements	11,370,000	0.08	8,650,000	0.10
Warrants expired	(2,830,250)	0.19	-	-
Balance, end of period	19,757,250	0.09	11,217,500	0.12

The Company has recognized an income tax recovery of \$14,176 related to the tax impact of the expiry of warrants.

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued in the six months ended February 28, 2014 and the year ended August 31, 2013:

	Six months ended February 28, 2014	Year ended August 31, 2013
Risk-free interest rate	1.13%	1.14%
Expected life of warrants	2.0 years	1.55 years
Expected annualized volatility	101.6%	96%
Expected dividend rate	0%	0%

Stock options

The Company may grant stock options pursuant to a stock option plan which was established in accordance with the policies of the TSX Venture Exchange. The Board of Directors administers the Plan, pursuant to which the Board of Directors may grant from time to time incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants and advisors. The options can be granted for a maximum of five years.

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)**Stock options (Continued)**

As at February 28, 2014, the following incentive stock options were outstanding:

Expiry Date	Exercise Price \$	Options Outstanding and Exercisable	
		Number of Options Outstanding	Weighted average remaining contractual life (years)
January 10, 2017	0.10	1,075,000	2.86
June 19, 2017	0.10	250,000	3.30
October 5, 2017	0.10	200,000	3.60
December 27, 2017	0.10	250,000	3.82
January 31, 2018	0.10	425,000	3.92
September 26, 2018	0.05	600,000	4.57
		<u>2,800,000</u>	<u>3.58</u>

The following is a summary of the option transactions during the six months ended February 28, 2014 and the year ended August 31, 2013:

	Six months ended February 28, 2014		Year ended August 31, 2013	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of the period	2,300,000	0.10	1,325,000	0.10
Options granted	700,000	0.05	975,000	0.10
Options expired	(150,000)	0.10	-	-
Options exercised	<u>(100,000)</u>	0.05	<u>-</u>	-
Balance, end of the period	<u>2,750,000</u>	0.09	<u>2,300,000</u>	0.10

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted for the six month period ended February 28, 2014 and the year ended August 31, 2013:

	Six months ended February 28, 2014	Year ended August 31, 2013
Risk-free interest rate	1.91%	1.40%
Expected life of options	5.0 years	4.6 years
Expected annualized volatility	124.4%	121%
Expected dividend rate	0%	0%

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)**Share based compensation**

For the six months ended February 28, 2014, the Company granted 700,000 options (2013: 975,000). The options were exercisable at \$0.05 (2013 - \$0.10) for a period of one to five years. The options vested immediately. Accordingly, share-based compensation expense for the six months ended February 28, 2014 was \$29,520 (2013: \$59,451).

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the six months ended February 28, 2014 consisted of:

- a) An decrease in accrued exploration and evaluation expenditures of \$44,316 and decrease from exploration partner of \$117,539.
- b) An increase in accrued share issue costs of \$4,645.
- c) Issued 1,500,000 shares valued at \$60,000 pursuant to the Shakespeare property agreement.

Significant non-cash investing and financing transactions for the six months ended February 28, 2013 consisted of:

- a) An increase in accrued exploration and evaluation expenditures of \$54,174.
- b) An increase in accrued share issue costs of \$7,478.

16. SEGMENTED INFORMATION

The Company primarily operates in one reportable segment, being the acquisition and exploration of resource properties in Canada and the United States. Segmented information on a geographic basis is as follows:

	February 28, 2014	August 31, 2013
	\$	\$
Canadian exploration expenditures and reclamation bonds	1,100,384	981,044
US exploration and evaluation expenditures and reclamation bonds	792,051	1,180,767
	<u>1,892,435</u>	<u>2,161,811</u>

Substantially all of the other assets and operating expenditures are in Canada.

17. COMMITMENTS AND CONTINGENCIES

The Company's exploration and evaluation activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

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FOR THE SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013

17. COMMITMENTS AND CONTINGENCIES (Continued)

The Company was obligated to spend \$68,829 by December 31, 2013 as part of the flow through funding agreement for shares issued in December 2012 and is obligated to spend \$205,800 by December 31, 2014 as part of the flow through funding agreement for shares issued in December 2013. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to flow through participants. The Company indemnified the subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditure commitments. The Company incurred an expenditure shortfall of \$1,104 on its December 31, 2013 obligation and has accrued \$442 related to the indemnification of the subscribers.

In February 2014, the Company entered into a Financial Public Relations Service Agreement with MI3 Communications Financieres Inc. ("MI3"). Pursuant to the terms of the agreement, the Company will pay MI3 a monthly fee of \$7,500 plus applicable taxes for a twelve month period. In addition, the Company must issue 300,000 options exercisable at \$0.10. (Note 18)

18. SUBSEQUENT EVENTS

In March 2014, the Company granted 300,000 options exercisable at \$0.10 for a period of five years pursuant to the terms of the Financial Public Relations Service Agreement with MI3. The options vest evenly each quarter for a twelve month period.

The Company announced that it had arranged a non-brokered private placement of up to 1 million units at a price of \$0.05 per unit for gross proceeds of \$50,000. Each unit will consist of one common share and one share purchase warrant. Each warrant is exercisable for a period of 24 months at an exercise price of \$0.075. Finder's fees may be payable.