# DISCOVERY VENTURES INC.

(An exploration stage company)

## Condensed Interim Financial Statements

Nine months ended September 30, 2014

As expressed in Canadian dollars

[Unaudited – prepared by Management]

# DISCOVERY VENTURES INC.

900 – 570 Granville Street, Vancouver, BC V6C 3P1
Telephone (604) 808-1760 Facsimile: (604) 926-4232

## NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

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

***"Kenneth C. Phillippe"***

Kenneth C. Phillippe

Chief Financial Officer

## DISCOVERY VENTURES INC.

(An exploration stage company)

Condensed Interim Statements of Financial Position
As expressed in Canadian dollars
[Unaudited – prepared by management]

| | September 30, 2014 | December 31 2013 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 799,098 | 196,826 |
| Short term investments (Note 2) | - | 500,181 |
| Sales tax receivables | 52,817 | 69,614 |
| Mining tax credit receivables | 48,693 | 85,987 |
| Prepaid expenses | 330,776 | 18,641 |
| **Total current assets** | 1,231,384 | 871,249 |
| **Investment in associate - FortyTwo Metals Inc.,** (Note 5) | 1,602,644 | 800,000 |
| **Equipment, net** (Note 3) | 596,782 | 596,987 |
| **Exploration and evaluation assets** (Note 4) | 2,819,355 | 1,619,069 |
| **Total assets** | 6,250,165 | 3,887,305 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 29,901 | 67,945 |
| **Total current liabilities** | 29,901 | 67,945 |
| **SHAREHOLDERS' EQUITY** | | |
| **Share capital** | 11,034,538 | 7,113,141 |
| **Contributed surplus** | 1,319,101 | 821,769 |
| **Deficit** | (6,133,375) | (4,115,550) |
| **Total shareholders' equity** | 6,220.264 | 3,819,360 |
| **Total liabilities and shareholders' equity** | 6,250,165 | 3,887,305 |

*On behalf of the Board:*

*"Kenneth C Phillippe"* — Director

*"Akash Patel"* — Director

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

## DISCOVERY VENTURES INC.

(An exploration stage company)

Condensed Interim Statements of Operations, Comprehensive Loss and Deficit
As expressed in Canadian dollars
[Unaudited – prepared by management]

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $ | $ | $ | $ |
| **General and Administrative Expenses** | | | | |
| Amortization | 24 | 274 | 205 | 550 |
| Bank charges | 31 | 108 | 201 | 332 |
| Consulting | 96,197 | 53,290 | 203,501 | 145,790 |
| Filing and transfer agent fees | 53,526 | 2,683 | 76,027 | 49,370 |
| Insurance | 2,437 | - | 5,688 | - |
| Investor relations | 43,000 | 6,000 | 61,000 | 6,000 |
| Management and administration | 25,650 | 18,000 | 78,800 | 80,350 |
| Office and miscellaneous | 3,961 | 1,532 | 14,631 | 6,795 |
| Professional fees | 160,164 | 66,439 | 439,005 | 159,516 |
| Rent | 7,500 | 7,500 | 22,500 | 22,500 |
| Share based payments | 490,967 | 6,998 | 521,445 | 6,998 |
| Shareholder communications | 21,617 | 4,500 | 64,585 | 37,903 |
| Strategic planning | - | 13,500 | - | 40,500 |
| Travel and promotion | 29,560 | 321 | 41,663 | 19,898 |
| Website maintenance | 5,250 | 21,750 | 7,666 | 63,750 |
| | 939,884 | 202,895 | 1,536,917 | 640,252 |
| **Other income** | | | | |
| Interest income | - | 3,350 | 45 | 12,137 |
| Write-off of exploration and evaluation assets | (333,597) | - | (333,597) | (380,036) |
| Equity pick up from investment in FortyTwo Metals Inc. (Note 5) | (130,415) | - | (147,356) | - |
| **Net loss and comprehensive loss for the period** | (1,403,896) | (199,545) | (2,017,825) | (1,008,151) |
| **Basic and diluted loss per share** | (0.02) | (0.01) | (0.04) | (0.03) |
| **Weighted average number of common shares** - Basic and diluted | 63,966,904 | 34,730,079 | 50,876,833 | 34,539,053 |

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

**DISCOVERY VENTURES INC.**
(An exploration stage company)

Condensed Interim Statements of Cash Flows
As expressed in Canadian dollars
[Unaudited – prepared by management]

| | Nine months ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| **Cash flows from (used in)** | | |
| **Operating activities** | | |
| Loss for the period | (2,017,825) | (1,008,151) |
| Adjustments: | | |
| Amortization | 205 | 550 |
| Accrued interest income | 181 | (6,827) |
| Write-off of exploration and evaluatin assets | | 380,036 |
| Equity pick up from investment in FortyTwo | | - |
| Metals, Inc. (Note 5) | 147,356 | - |
| Share based payments | 521,445 | 6,998 |
| | (1,348,638) | (627,394) |
| Changes in non-cash working capital: | | |
| Sales tax receivables | 16,797 | 44,129 |
| Mining exploration tax credit receivable | 37,294 | 11,222 |
| Prepaid expenses | (312,135) | 37,000 |
| Accounts payable and accrued liabilities | | 10,984 |
| | (33,077) | |
| | (1,639,759) | (524,059) |
| **Investing activities** | | |
| Short term investments | 500,000 | 1,120,010 |
| Purchase of equipment | - | (202,007) |
| Investment in shares of FortyTwo Metals Inc. | (950,000) | - |
| Exploration and evaluation assets expenditures | (647,253) | (383,041) |
| | (1,097,253) | 534,962 |
| **Financing activities** | | |
| Issuance of common shares for cash (net) | 3,339,284 | 11,750 |
| | 3,339,284 | 11,750 |
| **Increase (decrease) in cash and cash equivalents** | 602,272 | 22,653 |
| **Cash and cash equivalents,** beginning of period | 196,826 | 33,952 |
| **Cash and cash equivalents,** end of period | 799,098 | 56,605 |

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

**DISCOVERY VENTURES INC.**
(An exploration stage company)
Condensed Interim Statement of Changes in Equity
As expressed in Canadian dollars
[Unaudited – prepared by management]

| | Common shares | | Contributed | | |
|---|---|---|---|---|---|
| | **Number** | Amount | Surplus | **Deficit** | **Total** |
| | | $ | $ | | $ |
| Balance, December 31, 2012 | 33,209,749 | 5,663,762 | 710,891 | (2,762,221) | 3,612,432 |
| Shares issued for cash pursuant to the exercise of stock options | | | | | |
| - at a price of $0.235 per share (Note 6b) | 50,000 | 19,696 | (7,946) | - | 11,750 |
| Shares issued for mineral properties at $0.39 per share (Note 4 and 6b) | 400,000 | 156,000 | - | - | 156,000 |
| Shares issued for mineral properties at $0.335 per share (Note 4 and 6b) | 1,000,000 | 335,000 | - | - | 335,000 |
| Shares issued for mineral properties at $0.18 per share (Note 4 and 6b) | 400,000 | 72,000 | - | - | 72,000 |
| Share-based payments – for stock options granted (Note 6d) | - | - | 6,998 | - | 6,998 |
| Net loss and comprehensive loss | - | - | - | (1,008,151) | (1,008,151) |
| Balance, September 30, 2013 | 35,059,749 | 6,246,458 | 709,943 | (3,770,372) | 3,186,029 |
| Shares issued for cash pursuant to brokered private placements | | | | | |
| - at a price of $0.21 per unit (Note 6b) | 4,779,000 | 1,003,590 | - | - | 1 ,003,590 |
| - attributable to warrants (Note 6b) | - | (47,790) | 47,790 | - | - |
| - cash commissions paid (Note 6b) | - | (60,215) | - | - | (60,215) |
| - agent's warrants issued as commission (Note 6b) | - | (28,902) | 28,902 | - | - |
| Share-based payments – for stock options granted (Note 6d) | - | - | 35,134 | - | 35,134 |
| Net loss and comprehensive loss | - | - | - | (345,178) | (345,178) |
| Balance, December 31, 2013 | 39,838,749 | 7,113,141 | 821,769 | (4,115,550) | 3,819,360 |
| Shares issued for cash pursuant to brokered private placements | | | | | |
| - at a price of $0.135 per unit (Note 6b) | 500,000 | 179,883 | (112,383) | - | 67,500 |
| Shares issued for cash pursuant to the exercise of warrants | | | | | |
| - at a price of $0.030 per unit (Note 6b) | 100,000 | 30,000 | - | - | 30,000 |
| Shares issued for mineral properties at $0.155 per share (Note 4 and 6b) | 3,600,000 | 558,000 | - | - | 558,000 |
| Shares issued for cash pursuant to brokered private placements | | | | | |
| - at a price of $0.15 per unit (Note 6b) | 22,381,249 | 3,357,187 | - | - | 3,357,187 |
| - cash commissions paid (Note 6b) | - | (115,403) | - | - | (115,403) |
| - agent's warrants issued as commission (Note 6b) | - | (88,270) | 88,270 | - | - |
| Share-based payments – for stock options granted (Note 6d) | - | - | 521,445 | - | 521,445 |
| Net loss and comprehensive loss | - | - | - | (2,017,825) | (2,017,825) |
| Balance, September 30, 2014 | 66,419,998 | 11,034,538 | 1,319,101 | (6,133,375) | 6,220,264 |

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

## 1. Nature and Continuance of Operations

The Company was incorporated on October 13, 1999 under the laws of British Columbia under the name 593960 British Columbia Ltd. and was inactive during the fiscal years 1999 to 2007. Commencing in the fiscal year 2008, the Company was reactivated with the purpose of assessing exploration opportunities in western Canada. On February 28, 2008 the Company changed its name to Discovery Ventures Inc. to better reflect a change in the focus of its principal business to the exploration of mineral interests.

The head office and principal address of the Company is located at 900 – 570 Granville Street, Vancouver, BC, V6C 3P1.

The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and exploration costs is dependent upon the existence of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposal of properties.

Although management has taken steps to verify title to mineral properties in which the Company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and noncompliant with regulatory requirements.

The Company emphasises that attention should be drawn to matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These condensed financial statements have been prepared using accounting principles applicable to a going concern which assumes 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 business rather than through a process of forced liquidation. The recoverability of capitalized costs is uncertain and dependent upon projects achieving commercial production or sale. The ability of the Company to carry out its business objectives dependent on the Company's ability to receive continued financial support from related parties, to obtain public equity financing, or to generate profitable operations in the future.

| | **September 30, 2014** | **December 31 2013** |
|---|---|---|
| Deficit | $ (6,133,375) | $ (4,115,550) |
| Working capital (deficiency) | $ 1,201,483 | $ 803,304 |

## 2. Significant Accounting Policies

### Basis of presentation

These condensed interim financial statements are unaudited and have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Reporting Interpretations Committee (IFRIC). They do not include all of the information required for full annual financial statements.

**2. Significant Accounting Policies** (cont'd…)

**Basis of presentation (**cont'd…)

These condensed interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting.

*Investments in Associates*
The Company conducts a portion of its business through an equity interest in associates. An associate is an entity over which the Company has significant influence, and is neither a subsidiary nor a joint arrangement. The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associates but does not have control or join control over those policies.

The Company accounts for its investments in associates using the equity method. Under the equity method the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the associate and for impairment losses after the initial recognition. The Company's share of earnings and losses of associates are recognized in profit or loss during the period. Distributions received from an associate are accounted for as a reduction in the carrying amount of the Company's investment.

At the end of each reporting period, the Company assesses whether there is any evidence that an investment in associate is impaired. This assessment is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved, and an assessment of the likely results to be achieved from performance of further exploration by the associate. When there is evidence that an investment in associate is impaired, the carrying amount of such investment is compared to its recoverable amount. If the recoverable amount of an investment in associate is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period of impairment. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings in the period the reversal occurs.

**Approval of financial statements**

The interim financial statements were approved by the Company's Board of Directors November 28, 2014.

**Use of judgments, estimates and assumptions**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and related disclosure.

Judgment is used mainly in determining how a balance or transaction should be recognized in the financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical

**2. Significant Accounting Policies** (cont'd…)

**Use of judgments, estimates and assumptions** (cont'd…)

experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

Significant areas where management's estimates and judgments have been applied include:

Judgments

i) Asset Impairments
The application of the Company's accounting policy for impairment on equipment and exploration and evaluation assets requires judgment in determining if the facts and circumstances suggest that the carrying amount exceeds the recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the Company would carry out an impairment test at the asset or group of assets, which requires estimate and judgement in determining the recoverable amount with reference to the fair value of the assets or group of assets less costs to sell or the value in use calculation. Where recoverable amount is determined to be less than the carrying amount, an impairment loss may arise. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

ii) Exploration and evaluation expenditures
The application of the Company's accounting policy for exploration and evaluation expenditures capitalized requires judgment in determining which expenditures are recognized as exploration and evaluation assets and applying the policy consistently. In making this determination, the Company considers the degree to which the expenditure can be associated with finding specific mineral resources.

iii) Provision
The Company applied judgement when recognizing the provisions for restoration, rehabilitation and environmental obligations.

iv) Going concern
The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its exploration projects and working capital requirements.

v) Recovery of deferred tax assets
Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

**2. Significant Accounting Policies** (cont'd…)

**Use of judgments, estimates and assumptions** (cont'd…)

Additionally, future changes in tax laws in the jurisdictions in which the Company operations could limit the ability of the Company to obtain tax deductions in future periods.

vi) Depreciation
Depreciation of mining equipment begins when it is available for use, which is defined as occurring when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Judgment is required in determining whether the mining equipment is available for use at each reporting date.

Judgment, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**Cash and cash equivalents**

Cash equivalents include money market instruments that are readily convertible to cash and have maturities at the date of purchase of less than ninety days. There were no cash equivalents as at September 30, 2014 and December 31, 2013.

**Short term investments**

Short term investment, which is fixed term deposit held at the bank with a maturity of more than three months and less than twelve months at the time of issuance, is recorded at fair value. As at September 30, 2014, the Company has short term investments of $Nil (December 31, 2013 - $500,181 due on December 20, 2014 with an annual yield of 1.2%).

**Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation and impairment losses. Equipment is depreciated to write off the cost of assets to operations using declining balance method over their estimated useful life at the following annual rates:

| | |
|---|---|
| Computer Equipment | - 30% |
| Mining Equipment | - 30% |

**Exploration and evaluation assets**

The Company is in the exploration stage with respect to its investment in mineral interests. Accordingly, once a license to explore an area has been secured, the Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of exploration and evaluation assets and crediting all revenues received against the cost of the related interests. Such costs, include, but are not limited to, geological and geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable resources. The aggregate

**2. Significant Accounting Policies** (cont'd…)

**Exploration and evaluation assets** (cont'd…)

costs related to abandoned exploration and evaluation assets are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment.

The recoverability of amounts shown for exploration and evaluation assets is dependent up on the discovery of economically recoverable resources, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. The Company recognized as income any costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount.

Upon transfer of exploration and evaluation costs into mine development, all subsequent expenditures on the construction, installation or completion of infrastructure facilities is capitalized within mine development. After production starts, all assets included in mine development costs are transferred to producing mines.

**Mining Exploration Tax Credit**

Mining exploration tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining exploration tax credits are earned in respect to exploration costs incurred in British Columbia, Canada and are recorded as a reduction of the related exploration expenditures.

**Impairment of non-financial assets**

The Company reviews and evaluates its property, including exploration and evaluation assets, and property and equipment for indications of impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable or at least at the end of each reporting period. The asset's recoverable amount is estimated if an indication of impairment exists.

Impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. Impairment losses reducing the carrying value to the recoverable amount are recognized in profit and loss.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

**2. Significant Accounting Policies** (cont'd…)

**Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales tax or duty. The following specific recognition criteria must also be met before revenue is recognized:

*Government grants*
Revenue from government grants related to the acquisition and development of exploration and evaluation assets is credited against the cost of the related asset when there is reasonable assurance that the Company will comply with the conditions attached to the grant and that the grant will be received.

*Interest income*
Revenue is recognized as interest accrues using the effective interest rate, that is, the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**Financial Instruments**

Financial assets
The Company's financial instruments consist of cash and cash equivalents, short term investments, investment in shares of FortyTwo Metals Inc. and accounts payable and accrued liabilities. Cash and cash equivalents, short term investments and investment in shares of FortyTwo Metals Inc. are classified as fair value through profit or loss and recorded at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. The fair value of cash and cash equivalents, short term investments and accounts payable and accrued liabilities are equal to their carrying value due to their short-term maturity. Investment in shares of FortyTwo Metals Inc. is measured at cost as the fair value cannot be reliably measured.

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* – This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

*Loans and receivables* – These assets are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments – These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present

**2. Significant Accounting Policies** (cont'd…)

**Financial Instruments** (cont'd…)

value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statements of operations and comprehensive loss.

*Available-for-sale* – Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statements of operations and comprehensive loss.

All financial assets, except those at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria are applied for each category of financial assets described above to determine impairment.

Financial liabilities
The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

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

*Other financial liabilitie*s – This category includes promissory notes, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

**Foreign currencies**

The presentation currency of the Company and the functional currency of the Company is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the date of the relevant transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Translation gains and losses are included in income or expense of the period in which they occur. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

**Share based payments**

The Company's Stock Option Plan allows directors, officers and consultants to acquire shares of the Company in exchange for the options exercised. The fair value of share options granted to employees is recognized as an expense over the vesting period using the graded vesting method with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

**2. Significant Accounting Policies** (cont'd…)

**Share based payments** (cont'd...)

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 share options that are expected to vest based on estimate of forfeiture rate.

The compensation cost of stock options granted to consultant is initially measured at fair value of the awards at the grant date and periodically remeasured to fair value until the consultant's performance is complete, and recognized over the periods during which the consultant become unconditionally entitled to the options. The compensation cost is charged to income with a corresponding increase to share-based payment reserve.

**Warrants**

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

Warrants that are issued as payment for agency fee or other transactions costs are counted for as share-based payments.

**Loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as the outstanding options and warrants are anti-dilutive.

**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in the statements of operations and comprehensive loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Deferred taxes are the taxes expected to be payable or recoverable between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of

**2. Significant Accounting Policies** (cont'd…)

**Income taxes** (cont'd...)

goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

**Segment information**

The Company currently conducts substantially all of its operations in Canada in one business segment.

**New accounting standards and interpretations not yet adopted**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the financial statements to be material.

*IFRS 2 Share-based payment*
The amendments to IFRS 2, issued in December 2013 clarify the definition of "vesting conditions", and separately define a "performance condition" and a "service condition". A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service. The amendments are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

*IAS 24 Related party disclosures*
The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

**New accounting standards and interpretations adopted as of January 1, 2014**

The following amendments will only affect disclosure and are effective for annual periods beginning with the Company's current fiscal year commencing on January 1, 2014.

IFRS 7 Financial instruments: disclosures and IAS 32 Financial instruments: presentation Financial assets and financial liabilities may be offset, with the net amount presented in the statement of financial position, only when there is a legally enforceable right to set off and when there is either an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. The amendments to IAS 32, issued in December 2011, clarify the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. The amendments will only affect disclosure and are effective for annual periods beginning on or after January 1, 2014. The adoption has no impact on the Company's financial statements.

**2. Significant Accounting Policies** (cont'd…)

**New accounting standards and interpretations adopted as of January 1, 2014** (cont'd...)

*IAS 36 Impairment of assets*
The amendments to IAS 36, issued in May 2013, require:

- Disclosure of the recoverable amount of impaired assets; and
- Additional disclosures about the measurement of the recoverable amount 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 will only affect disclosure and are effective for annual periods beginning on or after January 1, 2014. The adoption has no impact on the Company's financial statements.

**3. Equipment**

| Cost | Computer equipment | Mining equipment | Total |
|---|---|---|---|
| December 31, 2012 | $ 1,606 | $ 394,978 | $ 396,584 |
| Additions | 909 | 201,099 | 202,008 |
| September 30, 2013 | 2,515 | 596,077 | 598,592 |
| Additions | - | - | - |
| December 31, 2013 | $ 2,515 | $ 596,077 | $ 598,592 |
| Additions | - | - | - |
| September 30, 2014 | $ 2,515 | $ 596,077 | $ 598,592 |

| Accumulated amortization | Computer equipment | Mining equipment | Total |
|---|---|---|---|
| December 31, 2012 | $ 1,054 | $ - | $ 1,054 |
| Additions | 551 | - | 551 |
| September 30, 2013 | 1,605 | - | 1,605 |
| Additions | - | - | - |
| December 31, 2013 | $ 1,605 | $ - | $ 1,605 |
| Additions | 205 | - | 205 |
| September 30, 2014 | $ 1,810 | $ - * | $ 1,810 |

| Carrying amount | Computer equipment | Mining equipment | Total |
|---|---|---|---|
| December 31, 2012 | $ 552 | $ 394,978 * | $ 395,530 |
| September 30, 2013 | $ 910 | $ 596,077 * | $ 596,987 |
| December 31, 2013 | $ 910 | $ 596,077 * | $ 596,987 |
| September 30, 2014 | $ 705 | $ 596,077 * | $ 596,782 |

* Mining equipment was not available for use as at September 30, 2014, September 30, 2013, December 31, 2013 and 2012 and no amortization has been provided.

## 4. Exploration and Evaluation Assets

| | September 30 2014 | December 31 2013 |
|---|---|---|
| | $ | $ |
| **Acquisition costs** | | |
| Rabbitt Mine Property | 198,042 | 198,042 |
| Bralorne Mineral Property | - | 281,662 |
| Willa Deposit | 1,680,769 | 647,291 |
| Balance, end of period | 1,878,812 | 1,126,995 |
| | | |
| **Exploration costs** | | |
| Rabbitt Mine Property | 254,827 | 254,827 |
| Bralorne Mineral Property | - | 51,935 |
| Willa Deposit | 385,716 | 85,312 |
| Balance, end of period | 640,543 | 392,074 |
| | | |
| **Net Smelter Royalty advance payments** | | |
| Willa Deposit | 300,000 | 100,000 |
| Balance, end of period | 300,000 | 100,000 |
| | | |
| **Total Acquisition and Exploration** | 2,819,355 | 1,619,069 |

**Rabbitt Mine Property, Similkameen Mining Division, British Columbia**

As at April 28, 2008, the Company signed an option agreement, whereby it may acquire a 100% undivided interest in 4 mineral claims situated in the Similkameen Mining Division, British Columbia in exchange for an immediate cash payment of $15,000 (paid) and the following future consideration.

a. $20,000 (paid) and 200,000 of the Company's common shares (issued) no later than 15 days after the date the Company's shares are listed, posted and called for trading on the TSX Venture Exchange (TSX initial trading date – October 30, 2009).
b. $25,000 (paid) no later than October 30, 2010.
c. $25,000 (paid) no later than October 30, 2011.
d. $30,000 (paid) no later than October 30, 2012.

The Agreement is subject to 2% Net Smelter Return Royalty payable by the Company to the Optionor. The Company has the option to purchase the 2% Net Smelter Return Royalty at a purchase price of $1,000,000 per percentage point during the five year period commencing from that date upon which the Property is put into commercial production.

As at May 27, 2008, the Company signed an option agreement, whereby it may acquire a 100% undivided interest in 15 mineral claims situated in the Similkameen Mining Division, British Columbia in exchange for an immediate cash payment of $5,000 (paid) and the following future consideration.

a. $10,000 (paid) no later than 15 days after the date the Company's shares are listed, posted and called for trading on the TSX Venture Exchange (TSX initial trading date – October 30, 2009).
b. $10,000 (paid) no later than October 30, 2010.
c. $10,000 (paid) no later than October 30, 2011.
d. $15,000 (paid) no later than October 30, 2012.

The Agreement is subject to 2% Net Smelter Return Royalty payable by the Company to the Optionor. The Company has the option to purchase the 2% Net Smelter Return Royalty at a purchase price of

**4. Exploration and evaluation assets** (cont'd…)

**Rabbitt Mine Property, Similkameen Mining Division, British Columbia** (cont'd...)

$1,000,000 per percentage point during the five year period commencing from that date upon which the Property is put into commercial production.

| **Acquisition costs** | **Nine months ended September 30, 2014** | **Year Ended Decmeber 31, 2013** |
|---|---|---|
| | $ | $ |
| Balance, beginning of period | 198,042 | 198,042 |
| Additions during the period | - | - |
| Balance, end of period | 198,042 | 198,042 |
| **Exploration costs** | | |
| | $ | $ |
| Balance, beginning of period | 254,827 | 254,827 |
| Additions during the period | - | - |
| Balance, end of period | 254,827 | 254,827 |

**Bralorne Mineral Property, Lillooet Mining Division, British Columbia**

The Company acquired 30 claims located in the Lillooet Mining Division, British Columbia in consideration for $15,000 (paid) and 1,000,000 shares (issued), subject to a 2% Net Smelter Return Royalty. The Company has a further option to purchase one-half of the Net Smelter Return Royalty for $1.5 million.

| **Acquisition costs** | **Nine months ended September 30, 2014** | **Year Ended Decmeber 31, 2013** |
|---|---|---|
| | $ | $ |
| Balance, beginning of period | 281,662 | 265,000 |
| Additions during the period | - | 16,662* |
| | | 281,662 |
| Write-off on abandonment | (281,662) | - |
| Balance, end of period | - | 281,662 |
| **Exploration costs** | | |
| | $ | $ |
| Balance, beginning | 51,935 | 51,935 |
| Write off on abandonment | (51,935) | - |
| Balance, end of period | - | 51,935 |

* Relates to file assessment work to keep the claims in good standing incurred as part of mineral property acquisition cost.

**4. Exploration and evaluation assets** (cont'd…)

**Bralorne Mineral Property, Lillooet Mining Division, British Columbia**

Due to the focus of the Company on other mineral properties, during the nine mnths ended September 30, 2014 management abandoned the Bralorne Mineral Property. Accordingly, the aggregate costs related to the abandoned exploration and evaluation assets in the amount of $333,597 were charged to operations.

**Big Creek Property, British Columbia**

Pursuant to an agreement dated March 30, 2012 the Company has been granted an exclusive right and option to earn a 50% interest in the Big Creek property. The Company will make payments totaling $250,000 in expenditures and 1,200,000 common shares of the Company on or before July 1, 2014 as follows:

(i) Issue shares:
- (a) 400,000 common shares in the capital of the Company on or before five days from the date of the TSX Venture Exchange ("TSXV") approval (the "Approval Date") (issued);
- (b) 400,000 common shares in the capital of the Company on the date that is six months from the Approval Date (issued on January 8, 2013 at $0.39 per share); and
- (c) 400,000 common shares in the capital of the Company on the first anniversary of the Approval Date (issued on August 14, 2013 at $0.18 per share);

(ii) Expend $250,000 in exploration expenditures on the Property as follows:
- (a) $75,000 (expended) on or before July 1, 2012;
- (b) $87,500 on or before July 1, 2013; and
- (c) $87,500 on or before July 1, 2014;

The Company has entered into a Service Agreement dated May 10, 2012, with a Contractor to conduct an exploration program on the Big Creek Property, pursuant to which it has paid an initial sum of $37,500 upon signing, representing 50% of the work program, with a further $30,000 (paid) to be paid on completion of seven days of field work, and a final payment of $7,500 (paid) on presentation of the final Project Report.

Due to the focus of the Company on other mineral properties, during the fiscal year ended December 31, 2013 management terminated the agreement and abandoned the Big Creek Property. Accordingly, the aggregate costs related to the abandoned exploration and evaluation assets in the amount of $372,454 were charged to operations.

**4. Exploration and evaluation assets** (cont'd…)

**Big Creek Property, British Columbia (cont'd...)**

| **Acquisition costs** | | **Nine months ended September 30, 2014** | **Year Ended Decmeber 31, 2013** |
|---|---|---|---|
| | | $ | $ |
| Balance, beginning of period | | - | 92,000 |
| Additions during the period | | | |
| Property option payments | – for shares | - | 92,000 |
| | | - | 320,000 |
| Write-off on abandonment | | - | (320,000) |
| Balance, end of period | | - | - |

| **Exploration costs** | | |
|---|---|---|
| | $ | $ |
| Balance, beginning of period | - | 62,049 |
| Additions during the year | | |
| Geological consulting | - | 855 |
| Prospecting/Sampling | - | (2,867) |
| Mining tax credit | - | (7,583) |
| | - | (9,595) |
| Write-off on abandonment | - | (52,454) |
| Balance, end of period | - | - |

**Willa Deposit, British Columbia**

Pursuant to an option agreement dated November 13, 2012 (as amended September 24, 2013, January 13, 2014 and further amended on February 27, 2014), and an Assumption Agreement dated April 15, 2014, the Company has agreed to acquire up to a 100% interest in the Willa property, consisting of 5,328 hectares located in the Slocan Mining Division, British Columbia, subject to a 2.5% NSR. In consideration for certain modifications to the option agreement, the Company has agreed to pay an additional $200,000 (paid August 1, 2014) to the Optionors and to accelerate the $400,000 advanced royalty payment otherwise due on September 28, 2014, to a date that proposed funding may be received. The Company also agreed to pay an additional $20,000 (paid July 3, 2014) to the Optionors to extend the date of payment of the signing bonus. The Company will make payments consisting of $3,600,000 and 21,600,000 common shares of the Company and incur expenditures totaling $1,500,000 on or before April 12, 2016 as follows:

(i) Issue shares and cash payments:
  (a) $50,000 upon execution of the Option Agreement (paid);
  (b) $150,000 and 1,000,000 common shares in the capital of the Company on or before five days from the date of the TSX Venture Exchange ("TSXV") approval (the "Approval Date" being February 19, 2013) (paid and shares were issued on February 19, 2013);

**4. Exploration and evaluation assets** (cont'd…)

**Willa Deposit, British Columbia (cont'd...)**

(c) $100,000 (paid) on January 15, 2014 and $250,000 (paid July 28, 2014) and 4,000,000 common shares (to be issued) in the capital of the Company on August 19, 2014;
(d) 3,600,000 common shares in the capital of the Company upon TSXV acceptance for filing of amended agreement dated February 27, 2014; (Issued on May 9, 2014)
(e) $1,000,000 and 6,000,000 common shares in the capital of the Company on or before April 12, 2015; and
(f) $1,450,000 and 7,000,000 common shares in the capital of the Company on or before April 12, 2016.
(g) $600,000 from net profits of production of the Willa property after deduction of any royalties and expenses and after repayment of any outstanding production financing.

(ii) Expend $1,500,000 in exploration expenditures on the Property as follows:
(a) $500,000 on or before August 19, 2014;
(b) $500,000 on or before the second anniversary of the Approval Date; and
(c) $500,000 on or before the third anniversary of the Approval Date.

Until the date that the Property commences Commercial Production, the Company shall be responsible to pay minimum royalties advance payments due as follows:

(a) $100,000 on or before September 28, 2013 (paid);
(b) $400,000 on or before September 28, 2014;(paid $100,000, see subsequent event Note 12)
(c) $250,000 on or before September 28, 2015;
(d) $250,000 on or before September 28, 2015;
(e) $250,000 on or before September 28th of each subsequent year until commencement of Commercial Production

The Company has further agreed that in the event of termination of the Option Agreement, the Company will ensure that it has applied for a minimum of three years' assessment work on the Willa Property.

| **Acquisition costs** | | **Nine months ended September 30, 2014** | **Year ended December 31, 2013** |
|---|---|---|---|
| | | $ | $ |
| Balance, beginning of period | | 647,291 | 102,607 |
| Additions during the period | | | |
| Property option payments | – for cash | 470,000 | 150,000 |
| | – for shares | 558,000 | 335,000 |
| Additional acquisition costs* | | 5,478* | 59,684* |
| | | 1,033,478 | 544,684 |
| Balance, end of period | | 1,680,769 | 647,291 |

* Relates to geological consulting cost, management fees and filing fees incurred as part of mineral property acquisition cost.

## 4. Exploration and evaluation assets (cont'd…)

**Willa Deposit, British Columbia** (cont'd...)

| Exploration costs | Nine months ended September 30, 2014 | Year ended December 31, 2013 |
|---|---|---|
| | $ | $ |
| Balance, beginning of period | 85,312 | - |
| Additions during the period | | |
| Dam safety inspection | 30,000 | - |
| Data compilation, 3D survey | 21,454 | 4,762 |
| Engineering | 76,642 | 35,914 |
| Environmental consulting | 3,565 | - |
| Equipment mobilization | - | 831 |
| Equipment rental | 1,350 | - |
| Equipment repairs | - | 6,759 |
| Field geology | 16,125 | - |
| Field supplies | 674 | |
| Food and lodging | 5,400 | - |
| Geological survey and soil sampling | - | 54,597 |
| Mapping | 8,950 | - |
| Metallurgical consulting | 1,500 | 3,000 |
| Metallurgical testing | 11,331 | |
| Permitting and notice of work | 4,549 | 3,474 |
| Project management | 110,130 | 35,000 |
| Travel | 8,734 | 3,602 |
| Mining tax credit | - | (62,627) |
| | 300,404 | 85,312 |
| Balance, end of period | 385,716 | 85,312 |

| Net Smelter Royalty advance payment | Nine months ended September 30, 2014 | Year ended December 31, 2013 |
|---|---|---|
| | $ | $ |
| Balance, beginning of period | 100,000 | - |
| Additions during the period | 200,000 | 100,000 |
| Balance, end of period | 300,000 | 100,000 |

## 5. Investment in associate - FortyTwo Metals Inc.

On November 4, 2013 (and as amended January 5, 2014 and further amended on March 6, 2014), the Company entered into a binding letter agreement with Roca Mines Inc. ("Roca") and FortyTwo Metals Inc. ("FortyTwo") a wholly-owned subsidiary of Roca, whereby Roca granted an exclusive option to the Company to acquire all of the issued and outstanding common shares of FortyTwo. FortyTwo holds, among other assets, the Max Mine which includes an underground molybdenum mine, crushing, milling and concentrating facilities, tailing storage facilities, mineral claims, mining leases, licenses and other holdings located near Trout Lake in the Revelstoke Mining Division of the Province of British Columbia.

The Company may exercise the option and acquire all of the shares of FortyTwo for a total purchase price of $5,675,000, consisting of cash payments of $5,050,000 and the issuance of 2,500,000 shares of the Company at a deemed price of $0.25 per share in accordance with the following schedule:

- $50,000 payable (paid) to Roca as a non-refundable deposit upon entry into the Agreement;
- $750,000 payable to Roca within 10 days of receipt of conditional approval from the Exchange the ("Approval Date" (November 6, 2013), following which the first stage of the option will be deemed exercised and Roca will transfer 16% of the shares capital of FortyTwo to the Company (paid);
- $250,000 payable to Roca on or before January 8, 2014 (paid) and $50,000 to Roca on or prior to March 6, 2014 (paid) and an additional $650,000 to Roca on or prior to March 24, 2014 (paid) (together, the "Second Payment"). The Second Payment will be used to retire certain critical payables, past wages and delinquent accounts critical to maintaining Roca, FortyTwo and the Assets in good standing. Upon advance of the $250,000 Roca will transfer 5 FortyTwo Shares (equal to 5% of the FortyTwo Shares and 21% in aggregate) to the Company and will provide a copy of a share certificate and supporting documentation to evidence the completion of such share transfer. Upon advance of the $50,000, Roca will transfer 1 FortyTwo Share (equal to 1% of the FortyTwo Shares and 22% in the aggregate) to the Company and will provide a copy of a share certificate and supporting documentation to evidence the completing of such share transfer. Upon advance of the $650,000, Roca will transfer 13 FortyTwo Shares (equal to 13% of the FortyTwo Shares and 35% in the aggregate) to the Company and will provide a copy of a share certificate and supporting documentation to evidence the completing of such share transfer. Upon advance of the Second Payment in full, the second stage of the Option will be deemed exercised.
- $3,300,000 payable to Roca and the issuance of 2,500,000 million shares of the Company to Roca within 150 days of the Approval Date, or April 5, 2014, following which the third and final stage of the option will be deemed exercised and Roca will transfer the remaining 65% of the share capital of FortyTwo to the Company (100% in the aggregate).

The Company completed the first stage of the acquisition upon its payment to Roca of the $50,000 non-refundable deposit on November 4, 2013, and the subsequent payment of $750,000 on November 15, 2013. During the three months ended March 31, 2014 the Company paid $300,000 towards the Second Payment (22% in the aggregate). On April 1, 2014 the Company paid an additional $650,000 and completed its Second Payment (35% in the aggregate). To date, the Company has not paid the funds or issued the securities to Roca as required under the amended letter agreement in order to exercise the third stage of the option and acquire 100% of the share capital of FortyTwo. The Company has not received a notice of default or notice of termination from Roca or FortyTwo with respect to the amended letter agreement.

The Company's investment relating to its 35% interest in FortyTwo Metals Inc. is detailed as follows:

**5. Investment in associate - FortyTwo Metals Inc.** (cont'd...)

| | Nine months ended September 30, 2014 | Year ended December 31, 2013 |
|---|---|---|
| | $ | $ |
| Balance, beginning of period | 800,000 | - |
| Investment in shares, at cost | 950,000 | 800,000 |
| | 1,750,000 | 800,000 |
| Equity pick up of loss for current period | (147,356) | - |
| Balance, end of period | 1,602,644 | 800,000 |

**6. Share Capital**

Authorized: Unlimited number of common shares with no par value.

a. Issued and outstanding:

As at September 30, 2014 the total issued and outstanding share capital is 66,419,998 common shares (December 31, 2013 – 39,838,749).

b. Transactions

*Transactions incurred during the nine months ended September 30, 2014*

I. On April 1, 2014, the Company completed a private placement of 6,024,250 units at a price of $0.15 per Unit for gross proceeds of $903,638. Each Unit consists of one common share and one half of one share purchase warrant, with each warrant entitling the holder to purchase one additional share at a price of $0.30 for a period of three years. The Company paid a finder's fee of $54,218 and issued 361,455 warrants with a fair value of $29,094. Each warrant entitles the holder to purchase one additional common share on or before April 1, 2017 at a price of $0.30 per share. As the unit was issued at a price lower than the market trading price on April 1, 2014. $nil was allocated to contributed surplus as fair value for the warrants under the residual value method. Also see Note 6e.

II. On May 9, 014 the Company issued 3,600,000 common shares at $0.155 per share pursuant to the acquisition of mineral property (See Willa Deposit, Note 4).

III. On July 2, 2014, the Company completed a tranche of a private placement by issuing 7,971,333 units at a price of $0.15 per Unit for gross proceeds of $1,195,670. Each Unit consists of one common share and one half of one share purchase warrant, with each warrant entitling the holder to purchase one additional share at a price of $0.30 for a period of three years. The Company paid a finder's fee of $32,025 and issued 213,500 warrants with a fair value of $28,537. Each warrant entitles the holder to purchase one additional common share on or before July 2, 2017 at a price of $0.30 per share. As the unit was issued at a price lower than the market trading price on July 2, 2014. $nil was allocated to contributed surplus as fair value for the warrants under the residual value method. Also see Note 6e

**6. Share Capital (cont'....)**

b. Transactions (cont'd…)

*Transactions incurred during the nine months ended September 30, 2014 (cont'd...)*

IV. On July 21, 2014, the Company completed a tranche of a private placement by issuing 8,385,666 units at a price of $0.15 per Unit for gross proceeds of $1,257,850. Each Unit consists of one common share and one half of one share purchase warrant, with each warrant entitling the holder to purchase one additional share at a price of $0.30 for a period of three years. The Company paid a finder's fee of $29,160 and issued 203,400 warrants with a fair value of $30,639. Each warrant entitles the holder to purchase one additional common share on or before July 21, 2017 at a price of $0.30 per share. As the unit was issued at a price lower than the market trading price on July 21, 2014. $nil was allocated to contributed surplus as fair value for the warrants under the residual value method. Also see Note 6e.

V. On September 4, 2014 the Company issued 100,000 common shares upon the exercise of warrants, exercisable on or before April 1, 2017, at $0.30 per share.

VI. On September 26, 2014 the Company issued 500,000 common shares upon the exercise of incentive stock options, exercisable on or before September 14, 2015, at $0.135 per share.

*Transactions incurred during the year ended December 31, 2013*

I. The Company issued 50,000 common shares upon the exercise of stock options at $0.235 per share.

II. The Company issued 400,000 common shares at $0.39 per share pursuant to the acquisition of mineral property (See Big Creek Property, Note 4).

III. The Company issued 1,000,000 common shares at $0.335 per share pursuant to the acquisition of mineral property (See Willa Deposit, Note 4).

IV. The Company issued 400,000 common shares at $0.18 per share pursuant to the acquisition of mineral property (See Big Creek Property, Note 4).

V. On November 15, 2013 the Company completed a private placement financing, pursuant to which it issued 4,779,000 units at a price of $0.21 per unit for gross proceeds of $1,003,590. Each unit consists of one common share and one share purchase warrant exercisable over 2 years at a price of $0.35 per common share.. In connection with the closing of the financing, the Company paid a finder`s fee of $60,215 and issued 286,740 warrants with a fair value of $28,902. Each warrant entitles the holder to purchase one additional common share on or before November 15, 2015 at a price of $0.35 per share. As the unit was issued at a price higher than the market trading price on November 15, 2013, $47,790 was allocated to contributed surplus as fair value for the warrants under the residual value method. Also see Note 6e.

c. Escrow Shares

As at September 30, 2014 and December 31, 2013, the Company has nil common shares held in escrow.

**6. Share Capital** (cont'd...)

d. Stock Options

A summary of stock option activity for the periods is as follows:

| | Number of options | Weighted-average exercise price |
|---|---|---|
| | | $ |
| Balance, December 31, 2012 | 2,080,018 | 0.23 |
| Options exercised | (50,000) | 0.235 |
| Options forfeited / cancelled | (1,280,018) | 0.28 |
| Balance, September 30, 2013 and December 31, 2013 | 750,000 | 0.135 |
| Options exercised | (500,000) | 0.135 |
| Options granted and exercisable on or before August 8, 2018 | 500,000 | 0.25 |
| Options granted and exercisable on or before August 20, 2016 | 100,000 | 0.25 |
| Options granted and exercisable on or before August 20, 2019 | 5,231,999 | 0.25 |
| Balance, September 30, 2014 | 6,081,999 | 0.245 |

As at September 30, 2014, the Company has the following options outstanding and exercisable:

| Number of Options Outstanding | Number of Options Exercisable | Weighted Average Exercise Price | Years to expiry | Expiry Date |
|---|---|---|---|---|
| 250,000 | 250,000 | $ 0.135 | 0.96 | September 14, 2015 |
| 500,000 | 500,000 | 0.25 | 3.86 | August 8, 2018 |
| 100,000 | - | 0.25 | 1.89 | August 20, 2016 |
| 5,231,999 | 1,208,000 | 0.25 | 4.89 | August 20, 2019 |
| 6,081,999 | 1,958,000 | $ 0.245 | 4.59 | |

The Company has a stock option plan whereby it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company.

The Company granted 1,000,000 incentive stock options to consultants on September 14, 2010, exercisable on or before September 14, 2015 at a price of $0.135 per share where the exercise price is lower than the market price at the date of grant. 12.5% of the options vested upon TSX approval, and 12.5% every three months thereafter. During the nine months ended September 30, 2014, $nil (Year ended December 31, 2013 : $nil) of stock based compensation was recorded and cumulatively $224,767 (December 31, 2013: $224,767) has been recorded. During the nine months ended September 30, 2014, 500,000 of these options were exercised. As at September 30, 2014, 250,000 (December 31, 2013: 750,000) options remain outstanding.

The Company granted 900,000 additional incentive stock options to directors and 630,018 additional incentive stock options to consultants on January 26, 2011, exercisable on or before January 26, 2013 at a price of $0.28 per share where the exercise price is lower than the market

**6. Share Capital** (cont'd...)

d. Stock Options

price at the date of grant. 25% of the options vested upon TSX approval, and 25% every six months thereafter. 250,000 options granted to a former director were forfeited during the fiscal year ended December 31, 2011. During the year ended December 31, 2013 a total of $nil (2012: $42,927) of stock based compensation costs was recorded and cumulatively $207,680 (2012: $207,680) has been recorded. As at December 31, 2013, nil (2012: 650,000) options granted to directors and nil (2012: 630,018) options granted to consultants remain outstanding. On January 26, 2013 all 1,280,018 options expired unexercised.

On November 3, 2011 the Company granted 200,000 and 50,000 incentive stock options to directors and consultants, respectively, exercisable at a price of $0.235 per share on or before November 3, 2014. The estimated fair value of the options in the amount of $39,728 was recognized as 100% of the options vested upon TSX approval. 200,000 options were cancelled as a result of director resignation during the year ended December 31, 2012. During the fiscal year ended Deember 31, 2013 the remaining 50,000 options were exercised. As at September 30, 2014 and December 31, 2013,none of these options remain outstanding.

On August 8, 2013 the Company granted 500,000 share incentive stock options to a consultant pursuant to an investor relations contract, exercisable on or before August 8, 2018 at a price of $0.25 per share where the exercise price is higher than the market price at the date of grant. The options shall vest over a 12 month period with 25% of the options vesting after each 3 month period. During the nine months ended September 30, 2014 $31,288 of stock based compensation costs was recorded and cumulatively $73,420 has been recorded since the date of the grant. As at September 30, 2014, 500,000 options granted remain outstanding and all 500,000 options granted are exercisable. The fair value of options granted has been estimated using the Black-Scholes option pricing model, using weighted average assumptions of a risk-free interest rate of between 1.52% to 1.95%, expected dividend yield of 0%, share price volatility of between 87% to 108% and an expected life of the options of 5 years.

The Company granted 3,649,999 incentive stock options to directors on August 20, 2014, exercisable on or before August 20, 2019 at a price of $0.25 per share where the exercise price is lower than the market price at the date of grant. 25% of the options vested immediately upon the grant date, and 25% every three months thereafter. The fair value of options granted has been estimated using the Black-Scholes option pricing model, using weighted average assumptions of a risk-free interest rate of 1.56%, expected dividend yield of 0%, share price volatility of 87% and an expected life of the options of 5 years. During the nine months ended September 30, 2014 the Company recorded $366,822 of stock based compensation. As at September 30, 2014, all 3,649,999 options remained outstanding and 912,500 were exercisable.

The Company granted 1,182,000 additional incentive stock options to consultants on August 20, 2014, exercisable on or before August 20, 2019 at a price of $0.25 per share where the exercise price is lower than the market price at the date of grant. 25% of the options vested immediately upon the grant date, and 25% every three months thereafter. The fair value of options granted has been estimated using the Black-Scholes option pricing model, using weighted average assumptions of a risk-free interest rate of 1.56%, expected dividend yield of 0%, share price volatility of 89% and an expected life of the options of 5 years. During the nine months ended September 30, 2014 the Company recorded stock based compensation costs of $105,038. As at

**6. Share Capital** (cont'd...)

d. Stock Options (cont'd…)

September 30, 2014, all 1,182,000 options remained outstanding and granted to consultants remained outstanding and 295,500 were exercisable.

The Company granted 400,000 additional incentive stock options to investor relations consultants on August 20, 2014, exercisable on or before August 20, 2019 at a price of $0.25 per share where the exercise price is lower than the market price at the date of grant. 25% of the options vest every three months thereafter. The fair value of options granted has been estimated using the Black-Scholes option pricing model, using weighted average assumptions of a risk-free interest rate of 1.56%, expected dividend yield of 0%, share price volatility of between 89% and an expected life of the options of 5 years. During the nine months ended September 30, 2014 the Company recorded stock based compensation of $15,286. On September 30, 2014 all 400,000 options remained outstanding, none of which were exercisable.

The Company granted 100,000 additional incentive stock options to investor relations consultants on August 20, 2014, exercisable on or before August 20, 2016 at a price of $0.25 per share where the exercise price is lower than the market price at the date of grant. 25% of the options vest every three months thereafter. The fair value of options granted has been estimated using the Black-Scholes option pricing model, using weighted average assumptions of a risk-free interest rate of 1.56%, expected dividend yield of 0%, share price volatility of 101% and an expected life of the options of 2 years. During the nine months ended September 30, 2014 the Company recorded stock based compensation of $3,822. On September 30, 2014 all 100,000 options remained outstanding, none of which were exercisable

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessary provide reliable measure of the far value of the Company's stock options.

e. Warrants

On November 30, 2012 the Company issued 7,108,000 units and 622,600 Agent warrants, and on December 7, 2012 issued 2,460,000 units and 188,000 Agent warrants, pursuant to brokered private placements consisting of 9,568,000 units at $0.25 per unit. Each unit consists of one common share and one share purchase warrant exercisable over 5 years, at a price of $0.35 per common share in the first year, $0.40 in the second year and $0.45 per common share from the third to the fifth year. As the unit was issued at a price lower than the market trading price on November 30, 2012 and December 7, 2012, $nil was allocated to contributed surplus as fair value for the warrants under the residual value method. Also see Note 6b.

On November 15, 2013 the Company completed a private placement financing, pursuant to which it has issued 4,779,000 units at a price of $0.21 per unit. Each unit consists of one common share and one share purchase warrant exercisable over 2 years, at a price of $0.35 per common share. As the unit was issued at a price higher than the market trading price on November 15, 2013, $47,790 was allocated to contributed surplus as fair value for the warrants under the residual value method. The Company also issued 286,740 Agent warrants. Also see Note 6b.

**6. Share Capital** (cont'd...)

e. Warrants (cont'd…)

On April 1, 2014 the Company completed a private placement financing, pursuant to which it has issued 6,024,250 units at a price of $0.15 per unit. Each unit consists of one common share and one half of one share purchase warrant exercisable over 3 years, at a price of $0.30 per common share. As the unit was issued at a price lower than the market trading price on April 1, 2014 $nil was allocated to contributed surplus as fair value for the warrants under the residual value method. During the nine months ended September 30, 2014, 100,000 of these warrants were exercised. The Company also issued 361,455 Agent warrants with the same terms as the Units. Also see Note 6b.

On July 2, 2014 the Company completed a tranhe of private placement financing, pursuant to which it has issued 7,971,333 units at a price of $0.15 per unit. Each unit consists of one common share and one half of one share purchase warrant exercisable over 3 years, at a price of $0.30 per common hare. As the unit was issued at a price lower than the market trading price on July 2,2014 $nil was allocatedto contributed surplus as fair value for the warrants under the residual value method. The Company also issued 213,500 Agent warrants with the same terms aas the Units. Also see Note 6b.

On July 21, 2014 the Company completed a tranhe of private placement financing, pursuant to which it has issued 7,971,333 units at a price of $0.15 per unit. Each unit consists of one common share and one half of one share purchase warrant exercisable over 3 years, at a price of $0.30 per common share. As the unit was issued at a price lower than the market trading price on July 21, 2014 $nil was allocated to contributed surplus as fair value for the warrants under the residual value method. The Company also issued 203,400 Agent warrants. Also see Note 6b.

A summary of warrants activity for the years is as follows:

| | Number of Warrants Exercisable | Weighted Average Exercise Price | Years to expiry | Expiry Date |
|---|---|---|---|---|
| Balance, December 31, 2012 | 10,378,600 | $ 0.40 | 3.17 | |
| Warrants issued | 4,779,000 | $ 0.35 | 1.13 | November 15, 2015 |
| Agent's Warrants issued | 286,740 | $ 0.35 | 1.13 | November 15, 2015 |
| Balance, December 31, 2013 | 15,444,340 | $ 0.38 | | |
| Warrants issued | 3,012,125 | $ 0.35 | 2.51 | April 1, 2017 |
| Agent's Warrants issued | 361,455 | $ 0.35 | 2.51 | April 1, 2017 |
| Warrants issued | 3,985,667 | $ 0.35 | 2.76 | July 2, 2017 |
| Agent's Warrants issued | 213,500 | $ 0.35 | 2.76 | July 2, 2017 |
| Warrants issued | 4,192,833 | $ 0.30 | 2.81 | July 21,2017 |
| Agent's Warrants issued | 203,400 | $ 0.30 | 2.81 | July 21,2017 |
| Warrants exercised | (100,000) | $ 0.30 | 2.81 | April 1, 2017 |
| Balance, September 30, 2014 | 27,313,320 | $ 0.35 | 2.59 | |

**6. Share Capital** (cont'd...)

e. Warrants (cont'd…)

As at September 30, 2014, the Company has the following warrants outstanding and exercisable:

| | Number of Warrants Outstanding and Exercisable | Weighted Average Exercise Price | Years to expiry | Expiry Date |
|---|---|---|---|---|
| Warrants issued | 7,730,600 | $ 0.40 | 3.17 | November 30, 2017 |
| Warrants issued | 2,648,000 | $ 0.40 | 3.19 | December 7, 2017 |
| Warrants issued | 5,065,740 | $ 0.35 | 1.13 | November 15, 2015 |
| Warrants issued | 3,273,580 | $ 0.30 | 2.50 | April 1, 2017 |
| Warrants issued | 4,199,167 | $ 0.30 | 2.76 | July 2, 2017 |
| Warrants issued | 4,396,233 | $ 0.30 | 2.81 | July 21, 2017 |
| As at September 30, 2014 | 27,313,320 | $ 0.35 | 2.59 | |

**7. Related Party Transactions**

During the nine months ended September 30, 2014 the Company entered into the following transactions with related parties:

a) Paid or accrued management fees of $56,900 (2013 - $21,800) to a director and officer.
b) Included in professional fees is $41,000 (2013 - $29,700) paid to an officer and director for accounting services.
c) Paid $10,000 to a Company controlled by a former director.
d) Included in accounts payable and accrued liabilities is $14,213 (December 31, 2013 - $2,625) payable to officers and directors.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related party.

**8. Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, short term investments, investment in shares of FortyTwo Metals Inc. and accounts payable and accrued liabilities. The Company has designated its cash and cash equivalents, short term investments and investment in shares of FortyTwo Metals Inc. as fair value through profit or loss, which is measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. The fair value of cash and cash equivalents, short term investments and accounts payable and accrued liabilities are equal to their carrying value due to their short-term maturity. Investment in shares of FortyTwo Metals Inc. is measured at cost as the fair value cannot be reliably measured. The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and commodity price risk.

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

**8. Financial Instruments** (cont'd...)

*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, 2014, the Company had a cash and cash equivalents and short term investments balance of $799,098 (December 31, 2013 - $697,007) to settle current liabilities of $29,901 (December 31, 2013 - $67,945). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk
The Company has cash and cash equivalents balances and no interest-bearing debt. The Company believes it has no significant interest rate risk.

On December 31, 2013, short term investments consisted of fixed guaranteed investment certificate redeemable before maturity, which bears interest at annual variable rates of 1.2% and matures December 20, 2014. During the nine months ended September 30, 2014 and the fiscal year ended December 31, 2013, cash and cash equivalents were not subject to any interest on bank balances. Sensitivity to a plus or minus 1% change in rates is not material to the statements of operations and comprehensive loss.

(b) Foreign currency risk
As at September 30, 2014, the Company's expenditures are in Canadian dollars, any future equity raised is expected to be predominantly in Canadian dollars. The Company does not hold balances in foreign currencies which would give rise to exposure to foreign exchange risk.

*Fair value hierarchy*

The Company applied the following fair value hierarchy which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As at September 30, 2014 and December 31, 2013, cash and cash equivalents and short term investments are assessed to be Level 1 instruments. Investment in shares of FortyTwo Metals Inc. is measured at cost as the fair value cannot be reliably measured.

## 9. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its resource properties and to maintain flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. As at September 30, 2014 and December 31, 2013, the Company has not entered into any debt financing.

The Company is dependent on the capital markets as its sole source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. There were no changes in the Company's approach to capital management during the year.

## 10. Commitments

The Company has retained an independent consultant to provide marketing services, setting up marketing teleconferences and road shows for the European, Canadian and U.S. investment community, and assisting in the distribution of news releases. In consideration for services, the Company has agreed to pay the consultant a total fee of $70,000 for a term of 10 months commencing April 1, 2014 and ending on February 1, 2015, paid in one annual amount of $70,000.

The Company entered into an agreement dated for reference July 15. 2014 whereby it has retained an investor relations firm from Switzerland to provided investor relations services to the Company for a period of twelve months at $4,500 per month, paid in one annual amount of $54,000.

Pursuant to an agreement dated August 1, 2014 the Company entered into a one year contract with a consultant to provide advisory services for $8,333 per month, paid in one annual amount of $100,000.

The Company entered into a six month contract dated August 15, 2014 with a consultant to provide investor relations services, for $12,500 per month.

The Company entered into a twelve month advisory agreement dated August 28, 2014 to engage investment banking firm to provide certain services including market intelligence and liquidity support in exchange for a monthly advisory fee of $10,000

See Exploration and Evaluation Assets, Note 4.

See Subsequent Events, Note 12.

## 11. Supplemental Disclosure With Respect To Cash Flows

The significant non-cash transactions during the nine months ended September 30, 2014 were as follows:

a) Unpaid exploration and evaluation assets of $6,718
b) 3,600,000 common shares issued for Willa Deposit at a fair value of $558,000.

The significant non-cash transactions during the fiscal year ended December 31, 2013 were as follows:

a) 400,000 common shares issued for Big Creek Property at a fair value of $156,000.
b) 1,000,000 common shares issued for Willa Deposit at a fair value of $325,000.
c) 400,000 common shares issued for Big Creek Property at a fair value of 72,000.
d) Accrual of mining exploration tax credit receivable of $70,210.
e) Unpaid exploration and evaluation assets of $11,685.

## 12. Subsequent Events

Pursuant to a Letter Agreement dated November 26, 2014 the Company and the Optioners of the Willa Deposit, have agreed to extend the date of payment of the $400,000 otherwise due September 28, 2014 in accordance with the following payment schedule (See Note 4):

$100,000 on or before September 29, 2014 (paid September 30, 2014); $100,000 on or before October 28, 2014 (paid October 24, 2014); $50,000 on or before each of November 28, 2014 (paid November 26, 2014), December 28, 2014, January 28, 2015 and February 28, 2015.