

(An Exploration Stage Company)

(formerly Raystar Capital Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

(Expressed in Canadian Dollars)

January 29, 2014

Independent Auditor's Report

To the Shareholders of Newmarket Gold Inc.

We have audited the accompanying consolidated financial statements of Newmarket Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2013, and December 31, 2012, and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the Financial Statements present fairly, in all material respects, the financial position of Newmarket Gold Inc. as at December 31, 2013, and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Newmarket Gold Inc. *(formerly Raystar Capital Ltd.)*
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents		$ 3,654,200	$ 927,029
Trade and other receivables		17,782	2,799
Prepaid expenses		12,180	-
		3,684,162	929,828
Non-current			
Exploration and evaluation assets	6	464,291	-
		$ 4,148,453	$ 929,828
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables		$ 55,008	$ 17,599
Shareholders' equity			
Share capital	7	$ 6,419,830	$ 3,454,125
Share-based payments reserve		195,460	146,798
Warrants reserve		687,496	-
Accumulated deficit		(3,209,341)	(2,688,694)
		$ 4,093,445	$ 912,229
		$ 4,148,453	$ 929,828

Nature of Operations (Note 1)

On behalf of the Board:

"Edward Farrauto" Director *"Douglas B. Forster"* Director

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

Newmarket Gold Inc. *(formerly Raystar Capital Ltd.)*
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
Years Ended December 31
(Expressed in Canadian Dollars)

	Notes	2013	2012
EXPENSES			
Accounting and audit fees		$ 31,700	$ 17,800
Bank and interest charges		412	-
Consultants		188,333	84,000
Insurance		3,238	-
Legal		26,333	11,802
Marketing		22,216	-
Office		2,869	140
Rent		20,000	-
Salaries and benefits		80,386	-
Shareholder relations		3,586	969
Share-based compensation		78,242	-
Trade show and conferences		16,001	-
Transfer agent and regulatory fees		15,027	11,718
Travel		40,940	-
		(529,283)	(126,429)
OTHER INCOME			
Interest income		8,636	5,453
Net Loss and Comprehensive Loss for the Year		$ (520,647)	$ (120,976)
Net Loss per Share – Basic and Diluted		$ (0.02)	$ (0.00)
Weighted Average Number of Shares Outstanding		32,820,145	26,626,903

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

Newmarket Gold Inc. *(formerly Raystar Capital Ltd.)*
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Common shares					
	Number	Amount	Share-based payments reserve	Warrants reserves	Accumulated deficit	Total
Balance – January 1, 2012	19,857,040	$ 2,544,325	$ 146,798	$ 209,800	$ (2,567,718)	$ 333,205
Issuance of common shares:						
- Exercise of warrants (Note 7)	7,000,000	909,800	-	(209,800)	-	700,000
Net loss for the year	-	-	-	-	(120,976)	(120,976)
Balance – December 31, 2012	26,857,040	$ 3,454,125	$ 146,798	$ -	$ (2,688,694)	$ 912,229
Balance – January 1, 2013	26,857,040	$ 3,454,125	$ 146,798	$ -	$ (2,688,694)	$ 912,229
Issuance of common shares:						
- On private placement (Note 7)	23,333,334	2,776,125	-	687,496	-	3,463,621
- On option exercise (Note 7)	400,000	69,580	(29,580)	-	-	40,000
- On property acquisition (Note 7)	1,000,000	120,000	-	-	-	120,000
Share-based compensation (Note 7)	-	-	78,242	-	-	78,242
Net loss for the year	-	-	-	-	(520,647)	(520,647)
Balance – December 31, 2013	51,590,374	$ 6,419,830	$ 195,460	$ 687,496	$ (3,209,341)	$ 4,093,445

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

Newmarket Gold Inc. *(formerly Raystar Capital Ltd.)*
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31
(Expressed in Canadian Dollars)

	Notes	2013	2012
CASH PROVIDED BY (USED IN):			
Operating Activities			
Net loss for the year		$ (520,647)	$ (120,976)
Non-cash item:			
Share-based compensation		78,242	-
Changes in non-cash working capital:			
Trade and other receivables		(14,983)	116
Prepaid expenses		(12,180)	-
Trade and other payables		36,018	(204)
Decrease in Cash and Cash Equivalents from Operating		(433,550)	(121,065)
Investing Activities			
Exploration and evaluation expenditures		(342,900)	-
Increase in Cash and Cash Equivalents from Investing		(342,900)	-
Financing Activities			
Shares issued for cash, net of share issuance costs		3,503,621	700,000
Increase in Cash and Cash Equivalents from Financing		3,503,621	700,000
Increase in Cash and Cash Equivalents		2,727,171	578,935
Cash and Cash Equivalents – Beginning of Year		927,029	348,094
Cash and Cash Equivalents – End of Year		$ 3,654,200	$ 927,029
Supplemental Disclosure of Non-Cash Investing Activities			
Exploration and evaluation costs included in accounts payable		$ 1,391	$ -

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

1. NATURE OF OPERATIONS

Newmarket Gold Inc. *(formerly Raystar Capital Ltd.)* (*an Exploration Stage Company*) ("Newmarket" or the "Company") was incorporated by a Certificate of Incorporation issued pursuant to the provisions of the *Business Corporations Act* (British Columbia) on May 27, 1998. The address of the Company is Suite 3244 – 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1L3. The Company's common shares are currently listed on the TSX Venture Exchange (TSX-V: NGN) in Canada.

In October 2013, the Company completed the purchase of a 100% interest in the Point Leamington Zn-Au-Ag-Cu-Pb massive sulphide deposit located in north-central Newfoundland, Canada from Calibre Mining Corp. (TSX-V: CXB) pursuant to the terms of a Purchase and Sale Agreement dated June 20, 2013. The details of the purchase of Point Leamington Project are discussed in Note 6. The purchase of this project forms the basis for the Company's reactivation from the NEX Board of the TSX Venture Exchange to Tier 2 on the TSX Venture Exchange.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretation of the International Financial Reporting Interpretations Committee ("IFRIC"). The consolidated financial statements have been prepared under the historical cost method. The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses, which are further discussed in Note 3.

The Board of Directors approved the consolidated financial statements on January 29, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: 0982583 B.C. Ltd. and 0982576 B. C. Ltd. Both subsidiaries were incorporated pursuant to the provisions of the *Business Corporations Act* (British Columbia) in Canada in October 2013 and are inactive.

Cash and Cash Equivalents

Cash and cash equivalents include cash on account, demand deposits and money market investments with maturities from the date of acquisition of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value.

Share Capital

The Company records proceeds from share issuances net of issue costs and any tax effects. The Company records proceeds from the exercise of stock options and warrants as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is recorded at an amount equal to the fair value of the shares issued when the fair value of the non-monetary consideration is not determinable. The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, wherein, the fair value of the common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Share-based Payments

Equity settled share-based payments to employees and non-employees are measured at the fair value of the equity instrument at the grant date. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is determined using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted, and recognized over the period during which the options vest. The vesting periods are generally over a prescribed schedule of up to two years from date of grant issuance. The fair value is expensed or capitalized to exploration and evaluation assets and to assets under development with a corresponding increase in equity, reflecting a graded vesting method based on the Company's estimate of equity instruments that will eventually vest. Management estimates the number of options likely to vest at the time of a grant and at each reporting date up to the vesting date. Annually, the estimated forfeiture rate is adjusted for actual forfeitures in the period. Upon the exercise of stock options, the consideration received is recorded as share capital and the related stock option equity amount is transferred to share capital.

Loss per Share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Exploration and Evaluation Assets

Pre-exploration costs or property investigation costs are expensed in the period in which they are incurred. Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These expenditures include such costs as materials used, surveying, trenching, sampling, drilling, preparation of studies, payments made to contractors, depreciation expense on equipment used in exploration and evaluation activities, and stock-based compensation expense associated with these activities. Any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

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

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

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as assets under construction within property and equipment. Any subsequent development expenditures of the property are then capitalized and classified as assets under construction.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Impairment of Non-Financial Assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an impairment loss subsequently reverses, the amount of the reversal is limited such that the revised carrying amount of the asset (or cash generating unit) does not exceed the carrying amount that would have been determined had no prior impairment loss been recognized. A reversal of an impairment loss is recognized immediately in the determination of net loss and comprehensive loss.

Where future net cash flows cannot be estimated, management estimates fair value using best estimates and comparative situations in the marketplace. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Functional Currency and Foreign Currency Translation

The functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Exchange gains and losses arising from translation are included in the determination of net loss and comprehensive loss.

Income Taxes

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 year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

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. To the extent that the Company does not consider it probable that a future tax asset will be recovered, the deferred tax asset is reduced.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Income Taxes - *continued*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Use of Estimates, Assumptions, and Judgements

The preparation of these financial statements in accordance with IFRS requires the Company to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The Company evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Company believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Significant areas of estimation and uncertainty considered by management in preparing the financial statements are as follows:

Impairment of exploration and expenditure assets

The Company is required to review the carrying value of its exploration and evaluation properties for potential impairment. Impairment is indicated if the carrying value of the Company's exploration and evaluation is not recoverable. If impairment is indicated, the amount by which the carrying value of exploration and evaluation assets exceeds their estimated fair value is charged to the statement of loss and comprehensive loss.

Evaluating for recoverability during the exploration and evaluation phase requires judgment in determining whether future economic benefits from future exploitation, sale or otherwise are likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves or resources. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Company's financial ability to continue exploration and evaluation activities, contractual issues with joint venture partners, the impact of government legislation and political stability in the region, and the impact of current and expected future metal prices to potential reserves.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Financial Instruments

Financial assets and liabilities are initially recognized at fair value on the consolidated balance sheet when the Company becomes party to the contractual provisions of the instrument. Measurement in subsequent periods depends on the financial instrument's classification.

The Company classifies its financial assets into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification. The Company's accounting policy for each category is as follows:

- Cash and cash equivalents and trade and other receivables have been designated as loans and receivables and are thus recorded at amortized cost.
- Trade and other payables are classified as other financial liabilities and are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

There are three levels of fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Unobservable (supported by little or no market activity) prices.

Impairment of Financial Assets

Financial assets, other than those at fair value through the consolidated statements of loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimate future cash flows of the investment have been impacted. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

New Accounting Policies Adopted as at January 1, 2013

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. The following new standards applicable to the Company were adopted in these consolidated financial statements effective January 1, 2013:

- IFRS 10: *Consolidated Financial Statements* ("IFRS 10") establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidated – Special Purpose Entities*.

- IFRS 11: *Joint Arrangements* ("IFRS 11") introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures.* The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.

- IFRS 12: *Disclosure of Interest in Other Entities* ("IFRS 12") requires additional disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles, and off-balance sheet vehicles.

- IFRS 13: *Fair Value Measurements* ("IFRS 13") defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances.

- There have been amendments to existing standards, including IAS 27 *Separate Financial Statements* ("IAS 27"), and IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

The initial adoption of the above new standards did not have a significant impact on these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee and are mandatory for future periods only and as such have not been applied to these consolidated financial statements. The Company has no plans for early adoption of the following pronouncements and has not yet completed the process of assessing the impact that these standards will have on its consolidated financial statements.

- IFRS 9: *Financial Instruments* ("IFRS 9") is part of the IASB's wider project to replace IAS 39: *Financial Instruments: Recognition and Measurement.* IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company has not yet made an assessment of the impact of the amendments.

- IAS 36: *Impairment of Assets* ("IAS 36") is applicable on a retrospective basis for years beginning on or after January 1, 2014 with optional early adoption permitted. The effect of these amendments includes the following:

    - Removal of the requirement introduced as a consequential amendment of issuance of IFRS 13 to disclose recoverable amount when a cash generating unit ("CGU") contains goodwill or indefinite lived intangible assets but there has been no impairment;
    - Require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and
    - Require detailed disclosure of how the fair value less cost to dispose has been measured when an impairment loss has been recognized or reversed, including the level of the fair value hierarchy for which the fair value measurement is categorized.

4. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, to support continued evaluation and maintenance at the Company's existing properties, and to acquire, explore, and develop other precious and base metal interests.
- To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk of loss of principal.
- To obtain the necessary financing to complete exploration and development of its properties as required.

In the management of capital, the Company includes shareholders' equity and cash in the definition of capital. The Company is not exposed to any externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it, based on the level of funds required to manage its operations in light of changes in economic conditions and the risk characteristics of its underlying assets, especially with respect to exploration results on properties in which the Company has an interest.

4. CAPITAL MANAGEMENT - *continued*

In order to facilitate the management of capital and development of its mineral properties, the Company prepares annual expenditure budgets, which are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. In addition, the Company may issue new equity, incur additional debt, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of certain assets. The Company's investment policy is to hold cash in interest bearing accounts at a major Canadian banking institution to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends.

5. FINANCIAL INSTRUMENTS

The book values of cash and cash equivalents and trade and accounts receivable are representative of their respective fair values due to the short-term nature of these instruments. The fair value of accounts payable may be less than the carrying value as a result of the Company's credit and liquidity risk, discussed below.

The Company's financial instruments are exposed to certain financial risks including liquidity risk, credit risk, commodity price risk, interest rate risk and foreign exchange risk.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with the financial liabilities. The Company has a planning and budget process in place by which it anticipates and determines the funds necessary to support normal operation requirements and development of its mineral property interests. The Company coordinates the planning and budgeting process with its financing activities through the capital management process described in Note 4.

The Company's investment strategy is to invest its cash in highly liquid short-term interest bearing investments which are available on demand to fund the Company's short-term financial obligations. Trade and accounts payable are due within the current operating period and are subject to normal trade terms.

Credit Risk

The Company's credit risk is primarily attributable to its cash and cash equivalents and trade and accounts receivable. The risk exposure is limited to their carrying values at the balance sheet date. Cash and cash equivalents are held as cash deposits with counterparties that carry investment grade ratings as assessed by external rating agencies. The Company does not invest in asset-backed deposits or investments. Trade and other receivables consist of input tax credits reimbursable to the Company.

Commodity Price Risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian dollar and other foreign currencies, especially the United States dollar. The Company monitors commodity prices to determine the appropriate course of action to be taken. Fluctuations in the various commodity prices may adversely affect the Company's ability to finance the further development of its projects and may influence the course of action taken in development of its project. As the Company is not presently in production, the price of various commodities may only affect the Company's liquidity and its ability to meet ongoing obligations.

5. FINANCIAL INSTRUMENTS - *continued*

Interest Rate Risk

The Company has limited exposure to interest rate risk on its cash and cash equivalents. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short-term investments mature and the proceeds are invested at lower interest rates. A 1% change in interest rates would have an insignificant impact on the Company's net loss for the years ended December 31, 2013 and 2012. The Company's other financial assets and liabilities are not subject to interest rate risk, as they do not bear interest.

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of the changes in the foreign exchange rates. The Company's functional and reporting currency is the Canadian dollar and management considers the risk currently insignificant as the Company does not have any financial assets or financial liabilities denominated in any foreign currencies as at December 31, 2013 and 2012.

6. EXPLORATION AND EVALUATION ASSETS

	Year Ended December 31, 2013
Point Leamington, Canada	
Cost, beginning of year	$ -
Acquisition – cash payment	250,000
Acquisition – share issuance	120,000
Acquisition – legal and regulatory fees	90,326
Consulting fees	3,965
Total expenditures during the year	464,291
Cost, end of year	$ 464,291

Point Leamington, Newfoundland, Canada

In October 2013, the Company completed the purchase of a 100% interest in the Point Leamington Zn-Au-Ag-Cu-Pb massive sulphide deposit (the "Project"), which consists of a 263 hectare mining lease, located in north-central Newfoundland, Canada from Calibre Mining Corp. ("Calibre"). The mining lease is subject to a 2% net smelter return royalty, which is held by a third party.

As consideration for the Project, the Company issued 1,000,000 of its common shares and paid $250,000 to Calibre on closing. Calibre retains a 0.5% net smelter return royalty on production from the Project, which can be purchased by the Company at any time for $1,000,000. Calibre is considered a related party to the Company, as there is an officer and certain directors in common.

7. SHARE CAPITAL

Authorized

The authorized share capital of the Company is comprised of an unlimited number of common shares without par value.

Share Issuances

During the year ended December 31, 2013, the Company completed a non-brokered private placement of 23,333,334 units (the "Units") at a price of $0.15 per Unit for gross proceeds of $3,500,000. Each Unit consisted of one common share and one transferable share purchase warrant (the "Warrants"). Each Warrant is exercisable for a period of two years at a price of $0.30. There was no finder's fee payable in connection with this private placement. In connection with this private placement, the Company incurred $36,379 in legal and regulatory fees. The allocation of fair value of the Warrants issued in connection with this Private Placement was $687,496, with corresponding charge to contributed surplus using the relative fair value approach. The fair value of the Warrants was determined using the Black-Scholes pricing model with a risk-free rate of 1.19%, volatility factor of 100% and expected life of the Warrants of two years.

During the year ended December 31, 2013, the Company issued a total of 1,000,000 common shares to Calibre at a fair value of $120,000 pursuant to the purchase of Point Leamington (Note 6).

During the year ended December 31, 2013, the Company received gross proceeds totaling $40,000 related to the exercise of 400,000 options. In connection with these exercises, the Company reclassified the fair value of these options previously recorded in the amount of $29,580 from share-based payments reserve.

During the year ended December 31, 2012, the Company received $700,000 from the exercise of 7,000,000 common share purchase warrants. The warrants had an exercise price of $0.10 per share. In connection with this exercise, the Company transferred $209,800 from warrants reserve to share capital, being the original allocation of the fair value of the warrants. Of the total warrants exercised, 4,666,000 of these warrants were exercised by directors of the Company.

Stock Options

The Company has a stock option plan (the "Plan"), whereby the Company has reserved a number of common shares for issuance pursuant to the exercise of stock options. On May 15, 2012, the shareholders of the Company approved 5,371,408 number of common shares are to be reserved for issuance under the Plan. The Plan is administered by the Compensation Committee of the Company's Board. Options granted under the Plan will be exercisable at a price not less than the market value of the Company's common shares on the date of grant and granted for a term not to exceed five years from the date of grant. Any options granted under the Plan shall vest based on a periodic vesting schedule as determined by the Compensation Committee. In general, options have been granted to vest 25% immediately and 25% at each six month interval after the date of grant until fully vested.

A summary of the status of the Company's stock options as at December 31, 2013 and 2012 and changes during those years is presented below:

	2013		2012	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Balance, beginning of year	700,000	$ 0.26	700,000	$ 0.26
Options exercised	(400,000)	0.10	-	-
Options granted	2,000,000	0.20	-	-
Balance, end of year	2,300,000	$ 0.24	700,000	$ 0.26

7. SHARE CAPITAL - *continued*

Stock Options - *continued*

During the year ended December 31, 2013, the Company granted 2,000,000 stock options to directors, officers, and employees of the Company at an exercise price of $0.20 per share, with an expiry date of 5 years and vesting terms over an 18 month period. In addition, 400,000 stock options were exercised for total gross proceeds of $40,000 as described above under "*Share Issuances*".

As at December 31, 2013, stock options exercisable and outstanding are as follows:

	Options Outstanding		Options Exercisable	
Exercise Price	Number	Weighted Average Remaining Contractual Life (yrs.)	Number	Weighted Average Remaining Contractual Life (yrs.)
$0.20	2,000,000	4.76	500,000	4.76
$0.47	300,000	2.17	300,000	2.17
	2,300,000	4.42	800,000	4.42

Stock-based Compensation

The Company amortizes the total fair value of options granted over each option's vesting schedule. Consequently, the total compensation expense recognized for options granted during the year ended December 31, 2013 or prior periods was $78,242 (2012 - $Nil).

The fair value of the options granted during the year ended December 31, 2013 and 2012 has been estimated at the date of grant using the following Black-Scholes option pricing assumptions:

	December 31, 2013	December 31, 2013
Weighted average risk-free interest rate	1.70%	N/A
Weighted average expected option life	5 years	N/A
Weighted average expected stock volatility	100%	N/A
Weighted average forfeiture rate	0%	N/A
Weighted average expected dividend yield	Nil	N/A

The weighted average fair value on the grant date of options granted to officers, directors, and consultants during the year ended December 31, 2013 was $0.08.

7. SHARE CAPITAL - *continued*

Warrants

During the year ended December 31, 2013, the Company issued 23,333,334 Warrants, in connection with private placement discussed above under "*Share Issuances*". The Warrants have an exercise price of $0.30 and expire on October 4, 2015. During the year ended December 31, 2012, 7,000,000 warrants were exercised for gross proceeds of $700,000.

A summary of the status of the Company's outstanding and exercisable warrants as at December 31, 2013 and 2012, and changes during the years then ended:

	2013		2012	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Balance, beginning of year	-	$ -	7,000,000	$ 0.10
Warrants exercised	-	-	(7,000,000)	0.10
Warrants issued	23,333,334	0.30	-	-
Balance, end of year	23,333,334	$ 0.30	-	$ -

8. RELATED PARTY TRANSACTIONS

Key management personnel and compensation

Key management personnel of the Company are members of the Board of Directors, as well as the President and CEO, the CFO and Corporate Secretary, and the Vice-President. Key management compensation includes salaries and benefits and various consulting fees as follows:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Salaries and wages [(i)]	$ 75,000	$ -
Share-based payments [(ii)]	$ 74,328	$ -
Rent paid to a company with directors in common	$ 20,000	$ -
Consulting and advisory fees paid to key management personnel	$ 180,333	$ 84,000

(i) Salaries, wages, and benefits paid to key management personnel.

(ii) Share-based payments are the fair value of options granted to key management personnel and consultants as at the grant date, which is being amortized over the vesting period.

Included in accounts payable and accrued liabilities are $18,750 (December 31, 2012 - $Nil) payable to related parties for salaries and wages owing under employee agreements. The amounts owed to related parties are unsecured, non-interest bearing, and will be settled in cash.

All of the above transactions were incurred in the normal course of operations and are recorded at the amount agreed upon by the related parties.

9. INCOME TAXES

As at December 31, 2013 and 2012, the deferred tax assets are not recognized on the following temporary differences as it is not probable that sufficient future taxable profit will be available to utilize such differences:

	2013	2012
Future income tax assets		
Non-capital losses	$ 222,559	$ 110,111
Capital losses	165,500	165,500
Property and equipment	1,498	-
Share issuance costs	7,933	985
	397,490	276,596
Less: Unrecognized deferred tax assets	(397,490)	(276,596)
Balance, end of year	$ -	$ -

The Company has incurred non-capital losses for income tax purposes of $890,238 that may be available to offset future taxable income in Canada. These losses are subject to expire between 2014 and 2032. The Company also has incurred capital losses of $1,324,000. These losses can be carried forward indefinitely and used to reduce capital gains in future years.

Income tax expense differs from the amount that would result from applying the Canadian and federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	2013	2012
Loss for the year before income taxes	$ (520,647)	$ (120,976)
Statutory Canadian corporate tax rate	25.0%	25.0%
Expected income tax recovery	(130,162)	(30,244)
Items not deductible for tax purposes	19,861	-
Effect of financing costs	(9,095)	-
Other permanent differences	(1,498)	5,023
Change in unrecognized tax benefit	120,894	25,221
Income tax expense	$ -	$ -

10. SEGMENTED INFORMATION

The Company's principal activity is the exploration and development of mineral properties with these properties being located in Canada.