RACKLA
METALS INC

FINANCIAL REVIEW

Second Quarter Ended June 30, 2014

RACKLA METALS INC

(An Exploration Stage Company)

CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended June 30, 2014

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed interim financial statements for the six months ended June 30, 2014. These financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

RACKLA METALS INC.
(An Exploration Stage Company)
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

As at:		**June 30, 2014**		**December 31, 2013**
ASSETS		(Unaudited)		(Audited)
Current assets				
Cash	$	48,229	$	148,169
Available-for-sale investments (Note 6)		29,750		18,500
Taxes receivable		2,479		6,400
		80,458		173,069
Non-current assets				
Long term deposits		61,000		61,000
Property and equipment (Note 7)		13,176		14,400
Exploration and evaluation assets (Note 8)		972,568		972,568
		1,046,744		1,047,968
TOTAL ASSETS	**$**	**1,127,202**	**$**	**1,221,037**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	2,340	$	19,797
Due to related parties (Note 12)		12,623		16,746
Total liabilities		14,963		36,543
Shareholders' equity				
Share capital (Note 10)		7,301,555		7,301,555
Other equity reserves		134,068		134,068
Deficit		(6,334,634)		(6,251,129)
Accumulated other comprehensive income		11,250		-
Total shareholders' equity		1,112,239		1,184,494
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**1,127,202**	**$**	**1,221,037**

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON AUGUST 20, 2014:

"Simon Ridgway"	*"William Katzin"*
Simon Ridgway, Director	William Katzin, Director

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

RACKLA METALS INC.
(An Exploration Stage Company)
CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)
(Expressed in Canadian Dollars)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
EXPLORATION EXPENDITURES (Note 9)	$ 2,714	$ 11,191	$ 8,750	$ 27,698
GENERAL AND ADMINISTRATIVE EXPENSES				
Amortization	612	612	1,224	1,224
Legal and audit fees	2,300	5,427	2,450	7,620
Management fees (Note 12)	10,500	10,500	21,000	21,000
Office and administrative (Note 12)	10,162	26,485	21,169	53,646
Public relations (Note 12)	965	1,197	3,520	20,249
Salaries and benefits (Note 12)	6,570	26,271	13,980	53,370
Transfer agent and regulatory fees (Note 12)	2,370	3,349	8,830	9,591
Travel and accommodation (Note 12)	710	1,992	2,582	9,037
	34,189	75,833	74,755	175,737
Loss before other items	(36,903)	(87,024)	(83,505)	(203,435)
OTHER ITEMS				
Loss on impairment of available-for-sale investments (Note 6)	-	(36,750)	-	(171,750)
Write-down of exploration and evaluation asset costs (Note 8)	-	-	-	(90,406)
Loss before income taxes	(36,903)	(123,774)	(83,505)	(465,591)
Deferred income tax recovery	-	2,798	-	6,925
Net loss for the period	**$ (36,903)**	**$ (120,976)**	**$ (83,505)**	**$ (458,666)**
Other comprehensive gain (loss)				
Items that may be reclassified subsequently to profit or loss:				
Fair value gains on available-for-sale investments	-	-	11,250	-
Total comprehensive loss	**$ (36,903)**	**$ (120,976)**	**$ (72,255)**	**$ (458,666)**
Basic and diluted loss per share	$(0.00)	$(0.00)	$(0.00)	$(0.01)
Weighted average number of common shares outstanding	50,494,238	50,493,952	50,494,238	50,493,912

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

RACKLA METALS INC.

(An Exploration Stage Company)

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

			Other equity reserves				
	Number of common shares	**Share capital**	**Share-based payments**	**Share purchase warrants**	**Accumulated other comprehensive income (loss)**	**Deficit**	**Total**
Balance, December 31, 2012	50,493,872	$ 7,301,445	$ 137,951	$ 6,045	$ -	$ (1,887,798)	$ 5,557,643
Loss for the period	-	-	-	-	-	(458,666)	(458,666)
Warrants exercised	366	110	-	-	-	-	110
Balance, June 30, 2013	**50,494,238**	**7,301,555**	**137,951**	**6,045**	**-**	**(2,346,464)**	**5,099,087**
Loss for the period	-	-	-	-	-	(3,914,593)	(3,914,593)
Fair value gains on available-for-sale investments	-	-	-	-	178,474	-	178,474
Transfer on sale of available-for-sale investments	-	-	-	-	(178,474)	-	(178,474)
Share-based payments	-	-	(9,928)	-	-	9,928	-
Balance, December 31, 2013	50,494,238	7,301,555	128,023	6,045	-	(6,251,129)	1,184,494
Loss for the period	-	-	-	-	-	(83,505)	(83,505)
Fair value gains on available-for-sale investments	-	-	-	-	11,250	-	11,250
Balance, June 30, 2014	**50,494,238**	**$ 7,301,555**	**$ 128,023**	**$ 6,045**	**$ 11,250**	**$ (6,334,634)**	**$ 1,112,239**

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

RACKLA METALS INC.
(An Exploration Stage Company)
CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
(Expressed in Canadian Dollars)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net loss for the period	$ (36,903)	$ (120,976)	$ (83,505)	$ (458,666)
Items not involving cash:				
Amortization	612	612	1,224	1,224
Loss on impairment of available-for-sale investments	-	36,750	-	171,750
Write-down of exploration and evaluation asset costs	-	-	-	90,406
Deferred income tax recovery	-	(2,798)	-	(6,925)
	(36,291)	(86,412)	(82,281)	(202,211)
Changes in non-cash working capital items:				
Taxes receivable	(252)	10,694	3,921	13,353
Prepaid expenses	-	5,250	-	18,111
Due to related parties	3,868	(28,316)	(4,123)	(24,989)
Accounts payable and accrued liabilities	(13,077)	(9,974)	(17,457)	(29,255)
	(45,752)	(108,758)	(99,940)	(224,991)
FINANCING ACTIVITIES				
Proceeds on issuance of common shares	-	110	-	110
Decrease in cash	(45,752)	(108,648)	(99,940)	(224,881)
Cash, beginning of period	93,981	512,984	148,169	629,217
Cash, end of period	**$ 48,229**	**$ 404,336**	**$ 48,229**	**$ 404,336**

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

1. CORPORATE INFORMATION

Rackla Metals Inc. (the "Company") is pursuing opportunities related to exploration of mineral resource properties. The Company was incorporated in the Province of British Columbia on September 20, 2011, and is listed on the TSX Venture Exchange ("TSX-V"), having the symbol RAK.

The address of the Company's corporate office and principal place of business is #650, 200 Burrard Street, Vancouver, BC, Canada V6C 3L6.

2. BASIS OF PREPARATION

These condensed interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements of the Company. These condensed interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed interim financial statements should be read in conjunction with the Company's most recent annual financial statements, which were prepared in accordance with IFRS as issued by the IASB.

Basis of Measurement

These condensed interim financial statements have been prepared on the historical cost basis, except for certain financial instruments carried at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Nature of Operations and Ability to Continue as a Going Concern

These condensed interim financial statements have been presented on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Realization values may be substantially different from the carrying values shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At June 30, 2014, the Company had not yet achieved profitable operations, has accumulated losses of $6,334,634 since inception, and is expected to incur further losses in the development of its business, all of which raises significant doubt about its ability to continue as a going concern. The Company will periodically have to raise funds to continue operations; although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. If the Company is unable to obtain additional financing, management may be required to curtail certain discretionary expenses.

3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

Effective January 1, 2014, the Company adopted the following revised standard that was issued by the IASB:

IAS 36 Impairment of Assets

The IASB amended IAS 36 *Impairment of Assets* to reduce the circumstances in which the recoverable amount of assets or CGUs is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The adoption of this amendment did not have an impact on the Company's condensed interim financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued and effective January 1, 2014 are either not applicable or did not have an impact on the Company's condensed interim financial statements.

4. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

The Company will be required to adopt the following standards and amendments issued by the IASB as described below.

IFRS 9 Financial Instruments

The IASB intends to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities classified as FVTPL, financial guarantees and certain other exceptions. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has not early-adopted the revised standard and is currently assessing the impact that the standard will have on the financial statements.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

i) The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

   Assets or CGUs are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's exploration and evaluation assets.

   In respect of costs incurred for its investment in exploration and evaluation assets, management has determined the acquisition costs that have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, economics assessment/ studies, accessible facilities and existing permits.

ii) The Company has not recognized a deferred tax asset as management believes that it is not probable that taxable profit will be available against which a deductible temporary difference can be utilized.

iii) The determination of when an investment is impaired required significant judgment. In making this judgment, the Company evaluates, amongst other things, the duration and extent to which the fair value of the investment is less than its original cost at each reporting period.

The key estimate applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is the provision for income taxes and recognition of deferred income tax assets and liabilities.

6. AVAILABLE-FOR-SALE INVESTMENTS

As of June 30, 2014, available-for-sale investments consisted of 750,000 common shares of Solomon Resources Limited ("Solomon"), a public company, and 200,000 common shares of Voyager Gold Corp. ("Voyager"), a private company with a common director. The private company shares were initially measured at fair value and are carried at cost at June 30, 2014. During the year ended December 31, 2013, the Company sold its 600,000 common shares in Cordoba Minerals Corp. ("Cordoba"), a public company with common directors and officers, for proceeds of $328,474.

As at June 30, 2014, the carrying amount for the available-for-sale investments was $29,750 (December 31, 2013: $18,500). An unrealized gain of $11,250 was recorded in other comprehensive income during the period ended June 30, 2014.

(Expressed in Canadian Dollars)

6. AVAILABLE-FOR-SALE INVESTMENTS *(cont'd)*

In 2012, the Company determined that the decline in value of the Cordoba and Solomon shares was other than temporary. For the year ended December 31, 2013, the further decline in value of the Cordoba and Solomon shares by $150,000 and $22,500, respectively, were recorded as impairment loss. As at the date of disposition of the Cordoba shares, the Company recorded a change in fair value of $178,474.

	Solomon	Voyager	Cordoba	Total
Balance, December 31, 2012	$ 30,000	$ 11,000	$ 300,000	$ 341,000
Impairment of investments	(22,500)	-	(150,000)	(172,500)
Change in fair value	-	-	178,474	178,474
Disposition of investments	-	-	(328,474)	(328,474)
Balance, December 31, 2013	7,500	11,000	-	18,500
Change in fair value	11,250	-	-	11,250
Balance, June 30, 2014	**$ 18,750**	**$ 11,000**	**$ -**	**$ 29,750**

7. PROPERTY AND EQUIPMENT

	Leasehold improvements
Cost	
Balance, December 31, 2012	$ 19,060
Additions	-
Balance, December 31, 2013	19,060
Additions	-
Balance, June 30, 2014	**$ 19,060**
Accumulated amortization	
Balance, December 31, 2012	$ 2,212
Charge for the period	2,448
Balance, December 31, 2013	4,660
Charge for the period	1,224
Balance, June 30, 2014	**$ 5,884**
Carrying amounts	
At December 31, 2013	$ 14,400
At June 30, 2014	**$ 13,176**

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following costs of its mineral property interests as at March 31, 2014:

	Scarlet	Rivier	Sixty Mile	Face	Ten Mile Creek	Iola	Total
Balance, December 31, 2012	$ 895,541	$ 77,025	$ 3,316,264	$ 201,268	$ 90,406	$ 20,510	$4,601,014
Write-off acquisition costs	-	-	(3,316,263)	(201,267)	(90,406)	(20,510)	(3,628,446)
Balance, December 31, 2013	895,541	77,025	1	1	-	-	972,568
Balance, June 30, 2014	**$ 895,541**	**$ 77,025**	**$ 1**	**$ 1**	**$ -**	**$ -**	**$ 972,568**

Details of the Company's mineral property interests are disclosed in full in the financial statements for the year ended December 31, 2013. Significant exploration and evaluation asset transactions that have occurred in the period ended June 30, 2014 are as follows:

Rivier Property – Yukon Territory

The Rivier Property, located in the Watson Lake Mining District, Yukon, consists of 116 claims of which 16 claims are 100% owned and 100 claims are held pursuant to an option agreement ("Option") with the property owner.

Pursuant to an amending agreement signed in July 2014, in order for the Company to exercise the Option, it must make cash and share payments to the property owner according to the following schedule:

i) 50,000 common shares on or before July 18, 2012 (shares issued);
ii) 50,000 common shares on or before October 31, 2015;
iii) $20,000 cash and 50,000 common shares on or before October 31, 2016;
iv) $40,000 cash and 50,000 common shares on or before October 31, 2017; and
v) $80,000 cash and 50,000 common shares on or before October 31, 2018.

Face Property – Yukon Territory

During the period ended June 30, 2014, the Company allowed 382 claims of the 100% owned Face Property, Dawson Mining District, Yukon to lapse, thereby reducing the size of the Property to 147 claims.

9. EXPLORATION EXPENDITURES

During the period ended June 30, 2014, the Company incurred the following exploration expenditures:

	Sixty Mile	Face	Yukon General	Total
Field expense	$ -	$ -	$ 2,354	$ 2,354
Geological fees	810	2,561	1,463	4,834
Travel	-	-	1,562	1,562
Balance, end of period	**$ 810**	**$ 2,561**	**$ 5,379**	**$ 8,750**

(Expressed in Canadian Dollars)

9. EXPLORATION EXPENDITURES *(cont'd)*

During the period ended June 30, 2013, the Company incurred the following exploration expenditures:

	Scarlet West	Scarlet East	Sixty Mile	Face	Iola	Yukon General	Total
Assays	$ 353	$ -	$ -	$ 372	$ 125	$ -	$ 850
Camp expenses	1,245	-	-	2,314	-	-	3,559
Geological fees	5,127	440	4,703	5,740	2,154	4,171	22,335
Office and administration	-	-	-	-	-	286	286
Travel	-	-	-	668	-	-	668
Balance, end of period	**$ 6,725**	**$ 440**	**$ 4,703**	**$ 9,094**	**$ 2,279**	**$ 4,457**	**$ 27,698**

10. SHARE CAPITAL AND RESERVES

(a) Common Shares

The Company is authorized to issue an unlimited number of common shares without par value.

There was no share capital activity during period ended June 30, 2014.

(b) Share Purchase Warrants

The following is a summary of changes in warrants from January 1, 2013 to June 30, 2014:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2012	43,239,500	$0.27
Forfeited / Expired	(36,067,259)	$0.30
Exercised	(366)	$0.30
Balance, December 31, 2013	7,171,875	$0.10
Balance, June 30, 2014	**7,171,875**	**$0.10**

As at June 30, 2014, the following share purchase warrants were outstanding:

Expiry date	Number of warrants	Exercise price
October 10, 2014	7,171,875	$0.10

The weighted average remaining contractual life of outstanding share purchase warrants as at June 30, 2014 is 0.28 (December 31, 2013: 0.77) years.

(Expressed in Canadian Dollars)

11. SHARE-BASED PAYMENTS

Option Plan Details

The Company has in place a stock option plan (the "Plan"), which allows the Board of Directors to grant incentive stock options to the Company's officers, directors, employees and consultants. The exercise price of stock options granted is determined by the Board of Directors at the time of the grant in accordance with the terms of the Plan and the policies of the TSX-V. Options vest on the date of granting unless stated otherwise. Options granted to investor relations consultants vest in accordance with TSX-V regulation. The options are for a maximum term of ten years.

The following is a summary of changes in options for the period ended June 30, 2014:

			During the period				
Expiry date	**Exercise price**	**Opening balance**	**Granted**	**Exercised**	**Forfeited / cancelled**	**Closing balance**	**Vested and exercisable**
July 19, 2022	$0.15	1,225,000	-	-	-	1,225,000	1,225,000
Weighted average exercise price		**$0.15**	**-**	**-**	**-**	**$0.15**	**$0.15**

Fair Value of Options Issued During the Period

There were no options granted during the period ended June 30, 2014.

The weighted average remaining contractual life of the options outstanding at June 30, 2014 is 8.06 (December 31, 2013: 8.81) years.

The expected volatility is based on an average of historical prices of a comparable group of companies within the same industry due to the lack of historical pricing information for the Company. The risk free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Expenses Arising from Share-based Payments Transactions

Total expenses arising from the share-based payment transactions recognized as part of share-based compensation during the periods ended June 30, 2014 and 2013 were $Nil.

As of June 30, 2014, there was no unrecognized compensation costs related to share-based payment awards not yet exercisable.

Amounts Capitalized Arising from Share-based Payments Transactions

Total expenses arising from the share-based payment transactions that were capitalized during the periods ended June 30, 2014 and 2013 as part of exploration and evaluation acquisition costs were $Nil.

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS

The Company had transactions during the periods ended June 30, 2014 and 2013 with related parties who consisted of directors, officers and the following companies with common directors:

Related party	Nature of transactions
Radius Gold Inc. ("Radius")	Shared office, administrative and exploration related charges
Gold Group Management Inc. ("Gold Group")	Shared office, administrative and exploration related charges
Mill Street Services Ltd. ("Mill Street")	Management services

Balances and transactions with related parties not disclosed elsewhere in these financial statements are as follows:

(a) During the periods ended June 30, 2014 and 2013, the Company reimbursed Gold Group for the following costs:

	Six months ended June 30, 2014	Six months ended June 30, 2013
General and administrative expenses:		
Office and administration	$ 20,905	$ 42,324
Public relations	1,043	17,401
Salaries and benefits	13,980	51,539
Transfer agent and regulatory fees	2,179	2,565
Travel and accommodation	1,762	5,924
	$ 39,869	**$ 119,753**

Gold Group is reimbursed by the Company for certain shared costs and other business related expenses paid by Gold Group on behalf of the Company. Salaries and benefits costs paid to Gold Group include those for the Chief Financial Officer, Corporate Secretary and the former Vice President Corporate Development.

(b) Deposits as of June 30, 2014 consist of $61,000 (December 31, 2013: $61,000) paid to Gold Group and are related to the shared office and administrative services agreement with Gold Group that was effective July 1, 2012. Upon termination of the agreement, the deposits, less any outstanding amounts owing to Gold Group, are to be refunded to the Company.

(c) Amounts due to related parties as of June 30, 2014 consist of $12,623 (December 31, 2013: $15,219) due to Gold Group and $Nil (December 31, 2013: $1,527) due to Radius. The balance due to Gold Group is collateralized by a deposit, and the amount due to Radius was unsecured and due on demand. The amounts due do not bear interest.

These transactions are measured at the fair value of the services rendered.

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS *(cont'd)*

Key management compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management compensation comprises:

	Six months ended June 30, 2014	2013
Management fees	$ 21,000	$ 21,000
Salaries and benefits	4,584	11,791
	$ 25,584	**$ 32,791**

There were no share-based payments to key management personnel or directors not specified as key management personnel during the periods ended June 30, 2014 and 2013.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these condensed interim financial statements.

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management. The Board of Directors receives periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

(a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market prices affecting the Company are comprised of the following types of risk: interest rate risk and equity price risk. The Company is not exposed to the risk related to the fluctuation of foreign currency rates.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(cont'd)*

(a) Market Risk *(cont'd)*

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

Equity Price Risk

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company's available-for-sale investments are exposed to equity price risk due to the potentially volatile and speculative nature of the businesses in which the available-for-sale investments are held. The common shares held in Solomon and Voyager are monitored by management with decisions on sale taken at Board level. A 10% decrease in fair value of the shares would result in a $2,975 decrease in equity.

(b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and available-for-sale investments. The Company limits exposure to credit risk by maintaining its cash with chartered Canadian financial institutions. The Company does not have cash or available-for-sale investments that are invested in asset-based commercial paper.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At June 30, 2014, the Company had cash of $48,229 (December 31, 2013: $148,169) available to apply against short-term business requirements and current liabilities of $14,963 (December 31, 2013: $36,543). All of the Company's financial liabilities have contractual maturities of less than 45 days and are subject to normal trade terms.

Determination of Fair value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. All financial instruments at June 30, 2014 are carried at amortized cost, apart from the available-for-sale investment in a public company with shares in an active market of $18,750 which is carried at fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The statement of financial position carrying amounts for cash, accounts payables and accrued liabilities, and due to related parties approximates fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

The Company has made the following designations of its financial instruments: cash as fair-value-through-profit-or-loss, available-for-sale investments as available-for-sale financial assets, and accounts payable and accrued liabilities and due to related parties as other financial liabilities.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(cont'd)*

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The available-for-sale investment for Solomon is based on a quoted price and is therefore considered to be Level 1.

The available-for-sale investment in Voyager was recorded at fair value when it was received and is carried at cost due to Voyager being a private company with no quoted market prices available. This investment is considered to be Level 2 on initial recognition and carried at cost thereafter.

14. 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 advance its mineral properties. The Company's defines its capital as all components of equity. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the Company's approach to capital management during the period. As at June 30, 2014, the Company is not subject to any externally imposed capital requirements. The Company does not expect its capital resources to be sufficient to cover its corporate operating costs and future exploration expenditures through the next twelve months. As such, the Company will seek to raise additional capital and believes it will be able to do so, but recognizes the uncertainty attached thereto.

15. SEGMENTED REPORTING

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities.

RACKLA METALS INC

(the "Company")

MANAGEMENT'S DISCUSSION AND ANALYSIS
Second Quarter Report – June 30, 2014

General

This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the unaudited condensed interim financial statements of the Company for the six months ended June 30, 2014. The following information, prepared as of August 20, 2014, should be read in conjunction with the Company's unaudited condensed interim financial statements for six months ended June 30, 2014 and the related notes contained therein. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS"). In addition, the following should be read in conjunction with the Financial Statements of the Company for the year ended December 31, 2013 and the related MD&A. All amounts are expressed in Canadian dollars unless otherwise indicated. The June 30, 2014 financial statements have not been reviewed by the Company's auditors.

Additional information relevant to the Company's activities can be found on SEDAR at (www.sedar.com).

Forward Looking Information

This MD&A may contain "forward-looking statements" that reflect the Company's current expectations and projections about its future results. When used in this MD&A, words such as "will", "may", "should", "estimate", "intend", "expect", "anticipate" and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company's future operational or financial performance.

Forward-looking statements are statements that are not historical facts, and include but are not limited to:

a) Estimates and their underlying assumptions;
b) Statements regarding plans, objectives and expectations with respect to the effectiveness of the Company's business model, future operations, the impact of regulatory initiatives on the Company's operations, and market opportunities;
c) General industry and macroeconomic growth rates;
d) Expectations related to possible joint or strategic ventures; and
e) Statements regarding future performance.

Forward-looking statements used in this MD&A are subject to various risks, uncertainties and other factors, most of which are difficult to predict and generally beyond the control of the Company. These risks, uncertainties and other factors may include, but are not limited to unavailability of financing, failure to identify commercially viable mineral reserves, fluctuations in the market valuation for commodities, difficulties in obtaining required approvals for the development of a mineral project, and other factors.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks, uncertainties and other factors, including the risks, uncertainties and other factors identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by securities law.

<u>Business of the Company</u>

The Company is a Vancouver-based mineral exploration company engaged in the acquisition and exploration of precious and base metals properties. Management is actively seeking prospective projects for possible acquisition, to add to the Company's current Yukon property portfolio described below.

<u>Scarlet Property, Rackla Belt Area</u>

The Company owns 743 claims (15,520 hectares / 38,370 acres) in the Rackla Belt area, Yukon, of which 230 claims comprise the Scarlet East property and 513 claims the Scarlet West property.

Scarlet East

The Scarlet East property covers what is believed to be the eastern extension of the belt of rocks that host ATAC Resources' Osiris and Conrad discoveries located northeast of Keno City, Yukon.

Mineralization in the Rackla belt shares many of the characteristics of Carlin-type gold deposits, including similar alteration assemblages and association with the low-temperature arsenic sulphides, realgar and orpiment. In the eastern part of the belt, host rocks are two 150-to-250-metre-thick limestone debris flow and turbidite units, referred to by Atac Resources as the Osiris and Isis horizons. Regional and detailed mapping over the Scarlet East property has identified similar carbonate stratigraphy and fold patterns.

In 2012, the Company granted to Strategic Metals Ltd. ("Strategic") the option to acquire an undivided 60% interest in the Scarlet East claim block. Strategic can exercise the option by completing not less than 1,000 metres of drilling on or before December 31, 2012 (fulfilled), and incurring $5,000,000 in exploration expenditures on the property over a period of four years.

In 2013, a detailed prospecting and geological mapping program along with geochemical soil sampling (517 samples) were carried out by Strategic. Geochemical results identified an irregularly shaped, approximately north-north-westerly trending gold-arsenic-mercury-antimony in soil anomaly over an area of about 2000 by 700 metres in the eastern part of the property. Additional work is recommended by Archer, Cathro & Associates (1981) Limited, who carried out the work for Strategic, consisting of remote sensing studies, detailed geological mapping and prospecting, hand trenching and if results are promising, additional diamond drilling.

In order to keep the option agreement in good standing, Strategic is required to spend an aggregate of $1,500,000 on the property before December 31, 2014. Strategic has reported in its most recent financial statements that it had incurred a total of $686,175 to March 31, 2014, and that it is not currently planning to conduct any work on Scarlet East in 2014.

Scarlet West

Although the Scarlet West property was initially staked for its potential to host lode gold deposits, the Company has identified its potential to also host significant high grade Pb-Zn replacement or Mississippi Valley Type deposits.

At Scarlet West, lead-zinc mineralization and geochemical soil anomalies are found on the margins of a lower dolomite unit and as replacements and fillings in steeply dipping and crosscutting fault structures. In the 1970's McIntyre Mines identified three mineralized occurrences (White Ridge, Chopper Pad and Discovery Zone), all in the same stratigraphic horizon along a nine kilometre strike length. McIntyre Mines also located an additional zone, Puddle Zone, in a lower horizon that extends for at least two kilometres. In 2012 an additional zone, the Larry Zone, was discovered which is controlled by a fault structure that can be traced for four kilometres. Although McIntyre Mines diamond drilled eight small diameter holes (total 816.5 metres) on the Puddle and Discovery Zones, neither the drill hole locations or results are available.

Geochemical results from rock and soil samples taken during 2011 and 2012 returned significant anomalies for zinc from the southeast side of the property. A linear zinc in soil anomaly was delineated, which extends over four kilometres and includes both the Chopper Pad and Discovery Zone. Most of the soil lines, spaced at 200 metres and crossing the host carbonate horizon, included two or more samples spaced at 50 metres that contained >2,800 ppm to >10,000 ppm zinc. Coincident lead in soil anomalies range from 500 ppm to >1,000 ppm and several rock samples from the replaced carbonate mineralized horizon contained >2% zinc from highly leached and oxidized samples.

The White Ridge Zone, located on the northeast side of the property, has a gold in soil anomaly (>5 – 39 ppb) with scattered anomalous thallium values (>2 ppm) that was traced for 2 kilometres to the east. Anomalous mercury values (>1,864 ppb) are restricted to the immediate area of the original carbonate hosted White Ridge Zone over an east-west strike length of one kilometre.

Expanded soil sample coverage over the Puddle Zone, located one kilometre north of the White Ridge Zone and also underlain by carbonates, identified a coincident arsenic (>63 ppm), antimony (>8 ppm) anomaly, with sporadic anomalies for mercury (>911 ppb), arsenic (>62 ppm), silver (>563 ppb), lead (>106) and zinc (>1,110 ppm). This soil anomaly extends over a one kilometre east-west strike length, extends 500 m north-south, and is open to the west.

No additional work is planned for the Scarlet West property at the present time and the claims are in good standing until 2017.

Rivier Property

The Company holds a 100% interest in the Rivier Property partly by staking and partly under an option agreement. Voyager Gold Corp. ("Voyager"), a private BC company, has the option to acquire from the Company a 60% interest in the property, and Voyager has to date issued to the Company 200,000 common shares in its capital stock in order to keep the option agreement in good standing.

The Rivier claims are located 90 kilometres southeast of Ross River, Yukon and cover an ultramafic body shedding anomalous gold values from its margin into stream sediments and soil. In 2011, Voyager completed a program of geological mapping and geochemical sampling followed by an airborne geophysical (magnetic and radiometrics) survey. Two zones of anomalous gold in soil, ranging from background to over 2,000 ppb Au, were identified. In 2012 Voyager intended to explore with an initial program of trenching and 500 metres of diamond drilling exploration but poor market conditions precluded financing arrangements.

In 2013, Voyager carried out a short program of geological mapping and geochemical soil, stream sediment and rock sampling (139, 8 and 37 samples respectively). Geochemical results included a number of anomalous values for gold in soil (>27 ppb gold) extending the known anomalies but not closing them off. The report recommended detailed geological mapping, additional soil geochemistry to close off the gold anomalies, geophysics (HLEM and or IP) and, instead of trenching the flanks of the listwanitized ultramafic, to use a 'geoprobe' bedrock sampling tool to test for gold in bedrock.

Sixty Mile Property

The 100% owned Sixty Mile Property consists of 638 claims (approximately 12,958 hectares, 33,016 acres) which cover portions of the headwaters and drainage areas of the prolific Sixty Mile Gold Camp of the Yukon Territory which reportedly produced over 500,000 oz of gold from the creeks that drain the Company's holdings. These claims are in good standing until 2016 or later. No exploration work is currently planned for this ground.

Face Property

In April 2014, the Face property was reduced from 529 to 147 claims after 382 claims were allowed to lapse. The remaining claims are in two groups located in western Yukon, 8 kilometres and 25 kilometres, respectively, due east of Eagle, Alaska.

Work by the Company in 2013 consisted of 1,109 soil and 115 rock samples, prospecting and reconnaissance geological mapping over gold and silver anomalies identified in 2011 and 2012. Although the sampling was hindered by overburden and permafrost, geochemical soil sample results identified an irregular shaped area anomalous in silver (>10 ppm Ag and up to 88 ppm Ag) located over an area of approximately one square kilometre. The silver anomaly is accompanied by anomalous zinc values (>500 ppm to 6000 ppm Zn) and is underlain by black shale, likely belonging to the Road River Group. Rock samples of the black shale contained similar values for silver and zinc.

No significant gold values from the soil or rock samples were obtained and no additional work is currently planned. The claims covering the silver anomaly are in good standing until April 2019.

Qualified Person: Roger Hulstein, B.Sc., P.Geo., a member of the Association of Professional Engineers and Geoscientists of British Columbia, is the Company's Qualified Person as defined by National Instrument 43-101, and is responsible for the accuracy of the technical information in this MD&A.

Quarterly Information

The following table provides quarterly information for the eight fiscal quarters ended June 30, 2014:

Quarter Ended	Jun. 30, 2014 ($)	Mar. 31, 2014 ($)	Dec. 31, 2013 ($)	Sep. 30, 2013 ($)	Jun. 30, 2013 ($)	Mar. 31, 2013 ($)	Dec. 31, 2012 ($)	Sep. 30, 2012 ($)
Exploration expenditures (net)	2,714	6,036	55,150	416,014	11,191	16,507	12,238	483,208
General and administrative expenses	34,189	40,566	73,571	62,617	75,833	99,904	123,376	226,368
Net loss	36,903	46,602	3,646,251	268,342	120,976	337,690	675,696	709,576
Basic and diluted loss per share	0.00	0.00	0.07	0.01	0.00	0.01	0.02	0.02

The net loss for the quarter ended December 31, 2013 was significantly impacted by a write-down of $3,517,530 concerning certain exploration and evaluation assets. The net loss for the quarters ended March 31, 2013 and December 31, 2012 were both impacted by impairment charges against available-for-sale investments of $135,000 and $318,750 respectively and write-downs of mineral properties of $90,406 and $221,332 respectively. The quarter ended September 30, 2012 recorded higher general and administrative expenses compared to the other quarters presented due to a share-based payment expense of $137,951. Exploration expenditures were highest during the quarters ended September 30, 2012 and 2013 due to the seasonal nature of exploration in the Yukon.

Results of Operations

Quarter ended June 30, 2014

The quarter ended June 30, 2014 had a net loss of $36,903 compared to $120,976 for the quarter ended June 30, 2013, a decrease of $84,073. The comparative quarter net loss was higher partly because of a loss on impairment of available-for-sale investments of $36,750 recorded during that period whereas the current quarter recorded no such charge. Exploration expenditures in the current quarter totalled $2,714 compared to $11,191 in the comparative quarter, a decrease of $10,471.

General and administrative expenses for the quarter ended June 30, 2014 totalled $34,189 compared to $75,833 for the comparative quarter, a decrease of $41,644. All current quarter general and administrative costs were either lower or consistent with the comparative quarter, with notable decreases being $19,701 in salaries and benefits and $16,323 in office and administration. Current quarter costs were lower due to an overall decrease in business activity and cost cutting initiatives.

Six months ended June 30, 2014

The net loss for the six month period ended June 30, 2014 was $83,505 compared to $458,666 for the six month period ended June 30, 2013, a decrease of $375,161. Similar to the quarterly comparison, the comparative period incurred a loss on impairment of available-for-sale investments of $171,750 in addition to a write-down of $90,406 in exploration and evaluation asset costs whereas the current period recorded no such charges. As well, the current period exploration expenditures were $8,750 compared to $27,698 for the comparative period, a decrease of $18,948.

General and administrative expenses for the six month period ended June 30, 2014 totalled $74,755 compared to $175,737 for the six month period ended June 30, 2013, a decrease of $100,982. As was the case for the quarterly comparison, all current period general and administrative costs were either lower or consistent with the comparative period. Notable cost increases were $39,390 in salaries and benefits, $32,477 in office and administrative, and $16,729 in public relations. Also similar to the quarterly comparison, current period costs were lower due to an overall decrease in business activity and cost cutting initiatives.

Mineral Property Expenditures

During the six month period ended June 30, 2014, the Company incurred exploration costs in the Yukon totalling $8,750 with the majority of the costs relating to general care and maintenance of the Company's properties.

Liquidity and Capital Resources

The Company is in the exploration stage and therefore has no cash flow from operations. In 2013, the Company sold the 600,000 common shares it held in Cordoba Minerals Corp. for net proceeds of $328,474. While the Company does not have any commitments, it does have an option agreement on the Rivier property whereby the next scheduled payment due to keep the option in good standing is a payment of 50,000 common shares due on or before October 31, 2015.

As at June 30, 2014, current assets were $80,458 of which $48,229 was cash and $29,750 was the fair value of available-for-sale investments. Current liabilities were $14,963, resulting in a working capital position of $65,495. Existing funds continue to be used for care and maintenance activities on the Company's properties and for general working capital purposes.

The Company does not expect its current capital resources to be sufficient to cover its corporate operating costs and future exploration expenditures through the next twelve months. As such, the Company will seek to raise additional capital and believes it will be able to do so, but recognizes the uncertainty attached thereto. If the Company is unable to obtain additional financing, management may be required to curtail certain discretionary expenses. Actual funding requirements may vary from those planned due to a number of factors, including the progress of property acquisition and exploration activity.

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 advance its mineral properties. The Company's defines its capital as all components of equity. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the Company's approach to capital management during the period. As at June 30, 2014, the Company is not subject to any externally imposed capital requirements.

Financial Instruments and Risk Management

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the Company's financial statements.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management. The Board of Directors receive periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices affecting the Company are comprised of the following types of risk: interest rate risk and equity price risk. The Company is not exposed to the risk related to the fluctuation of foreign currency rates.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

Equity Price Risk

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company's available-for-sale investments are exposed to significant equity price risk due to the potentially volatile and speculative nature of the businesses in which the available-for-sale investments are held. The common shares held in Solomon Resources Limited ("Solomon") and Voyager are monitored by Management with decisions on sale taken at Board level. A 10% decrease in fair value of the shares would result in a $2,975 decrease in equity.

b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and available-for-sale investments. The Company limits exposure to credit risk by maintaining its cash with chartered Canadian financial institutions. The Company does not have cash or available-for-sale investments that are invested in asset based commercial paper.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At June 30, 2014, the Company had cash of $48,229 (December 31, 2013: $148,169) available to apply against short-term business requirements and current liabilities of $14,963 (December 31, 2013: $36,543). All of the Company's financial liabilities have contractual maturities of less than 45 days and are subject to normal trade terms.

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. All financial instruments at June 30, 2014 are carried at amortized cost, apart from the available-for-sale investment in a public company with shares in an active market of $18,750 which is carried at fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The statement of financial position carrying amounts for cash, accounts payables and accrued liabilities, and due to related parties approximates fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

The Company has made the following designations of its financial instruments: cash as fair-value-through-profit-or-loss, available-for-sale investments as available-for-sale financial assets, and accounts payable and accrued liabilities and due to related parties as other financial liabilities.

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are categorized in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The available-for-sale investment for Solomon is based on a quoted price and is therefore considered to be Level 1.

The available-for-sale investment in Voyager was recorded at fair value when it was received and is carried at cost due to Voyager being a private company with no quoted market prices available. This investment is considered to be Level 2 on initial recognition and carried at cost thereafter.

Related Party Transactions

The Company had transactions during the three and six month periods ended June 30, 2014 and 2013 with related parties who consisted of directors, officers and the following companies with common directors:

Related party	**Nature of transactions**
Radius Gold Inc. ("Radius")	Shared office, administrative and exploration related charges
Gold Group Management Inc. ("Gold Group")	Shared office, administrative and exploration related charges
Mill Street Services Ltd. ("Mill Street")	Management services

During the three and six month periods ended June 30, 2014 and 2013, the Company reimbursed Gold Group, a company controlled by the Chief Executive Officer of the Company, for the following costs:

	Three months ended June 30,		**Six months ended June 30,**	
	2014	**2013**	**2014**	**2013**
General and administrative expenses:				
Office and administration	$ 10,127	$ 21,021	$ 20,905	$ 42,324
Public relations	515	627	1,043	17,401
Salaries and benefits	6,570	25,791	13,980	51,539
Transfer agent and regulatory fees	1,679	2,565	2,179	2,565
Travel and accommodation	710	1,204	1,762	5,924
	$ 19,601	**$ 51,208**	**$ 39,869**	**$ 119,753**

Gold Group is reimbursed by the Company for certain shared costs and other business related expenses paid by Gold Group on behalf of the Company. Salaries and benefits costs paid to Gold Group include those for the Vice President Corporate Development, Chief Financial Officer, and Corporate Secretary.

Deposits as of June 30, 2014 include a total amount of $61,000 (December 31, 2013: $61,000) paid to Gold Group and is related to the shared office and administrative services agreement with Gold Group that was effective July 1, 2012. Upon termination of the agreement, the deposits, less any outstanding amounts owing to Gold Group, are to be refunded to the Company.

Amounts due to related parties as of June 30, 2014 consist of $12,623 (December 31, 2013: $15,219) due to Gold Group for reimbursement of shared costs and $Nil (December 31, 2013: $1,527) due to Radius for reimbursement of shared costs. The balance due to Gold Group is collateralized by a deposit and the amount due to Radius was unsecured and due on demand. The amounts due do not bear interest.

These transactions are measured at the fair value of the services rendered.

Key management compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management compensation comprises:

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Management fees	$ 10,500	$ 10,500	$ 21,000	$ 21,000
Salaries and benefits	2,292	5,833	4,584	11,791
Share-based payments	-	-	-	-
	$ 12,792	**$ 16,333**	**$ 25,584**	**$ 32,791**

There were no share-based payments to key management personnel or directors not specified as key management personnel during the periods ended June 30, 2014 and 2013.

Other Data

Additional information related to the Company is available for viewing at www.sedar.com.

Share Position and Outstanding Warrants and Options

As at August 20, 2014, the Company had 50,494,238 common shares issued and outstanding and the following share purchase warrants and incentive stock options are currently outstanding:

WARRANTS

No. of warrants	Exercise price	Expiry date
7,171,875	$0.10	October 10, 2014

STOCK OPTIONS

No. of options	Exercise price	Expiry date
1,225,000	$0.15	July 19, 2022

Adoption of New and Amended IFRS Pronouncements

Effective January 1, 2014, the Company adopted the following revised standard that was issued by the IASB:

IAS 36 Impairment of Assets

The IASB amended IAS 36 *Impairment of Assets* to reduce the circumstances in which the recoverable amount of assets or CGUs is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The adoption of this amendment did not have an impact on the Company's condensed interim financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued and effective January 1, 2014 are either not applicable or did not have an impact on the Company's condensed interim financial statements.

Future Accounting Changes

The Company will be required to adopt the following standards and amendments issued by the IASB as described below.

IFRS 9 Financial Instruments

The IASB intends to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities classified as FVTPL, financial guarantees and certain other exceptions. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has not early-adopted the revised standard and is currently assessing the impact that the standard will have on the financial statements.

Risks and Uncertainties

Mineral Property Exploration and Mining Risks

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that option agreements, claims and leases are in good standing; and obtaining permits for drilling and other exploration activities.

Joint Venture Funding Risk

The Company's strategy includes seeking partners through joint ventures to fund exploration and project development. The main risk of this strategy is that funding partners may not be able to raise sufficient capital in order to satisfy exploration and other expenditure terms in a particular joint venture agreement. As a result, exploration and development of one or more of the Company's property interests may be delayed depending on whether the Company can find another partner or has enough capital resources to fund the exploration and development on its own.

Commodity Price Risk

The Company is exposed to commodity price risk. Declines in the market price of gold, base metals and other minerals may adversely affect the Company's ability to raise capital or attract joint venture partners in order to fund its ongoing operations. Commodity price declines could also reduce the amount the Company would receive on the disposition of one of its mineral properties to a third party.

Financing and Share Price Fluctuation Risks

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Securities markets have at times in the past experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be exploration stage companies such as the Company, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on the Company's ability to raise additional funds through equity issues.

Political and Regulatory Risks

The Company is currently operating in Canada which has a stable political and regulatory environment. However, changing political aspects may affect the regulatory environment in which the Company operates.

Insured and Uninsured Risks

In the course of exploration, development and production of mineral properties, the Company is subject to a number of hazards and risks in general, including adverse environmental conditions, operational accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in damage to the Company's properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability and result in increased costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

Environmental and Social Risks

The activities of the Company are subject to environmental regulations issued and enforced by government agencies. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present. Social risks are considered low in Canada, the principal country of operation of the Company, but a change in social expectations could add new layers of risk to the viability of exploration and development properties.

Competition

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.