



## **FINANCIAL REVIEW**

**Fiscal Year Ended December 31, 2013**



(An Exploration Stage Company)

**FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

**INDEPENDENT AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF RACKLA METALS INC.**

We have audited the accompanying financial statements of Rackla Metals Inc., which comprise the statement of financial position as at December 31, 2013 and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and 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.

*Auditors' 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 auditors' 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 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 Rackla Metals Inc. as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 2 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

# SmytheRatcliffe

CHARTERED ACCOUNTANTS

*Other Matter*

The financial statements of Rackla Metals Inc. as at December 31, 2012 and for the year then ended, were audited by another auditor who expressed an unmodified opinion on those statements on April 25, 2013.

*Smythe Ratcliffe LLP*

Chartered Accountants

Vancouver, British Columbia  
April 25, 2014

**RACKLA METALS INC.**

(An Exploration Stage Company)

**STATEMENTS OF FINANCIAL POSITION**

As at December 31, 2013 and 2012

(Expressed in Canadian Dollars)

	2013	2012
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 148,169	\$ 629,217
Available-for-sale investments (Note 5)	18,500	341,000
Taxes receivable	6,400	22,437
Prepaid expenses and deposits (Note 13)	-	80,861
<b>Total current assets</b>	<b>173,069</b>	<b>1,073,515</b>
<b>Non-current assets</b>		
Long-term deposits (Note 13)	61,000	-
Property and equipment (Note 6)	14,400	16,848
Exploration and evaluation assets (Note 7)	972,568	4,601,014
<b>Total non-current assets</b>	<b>1,047,968</b>	<b>4,617,862</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,221,037</b>	<b>\$ 5,691,377</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 19,797	\$ 33,751
Due to related parties (Note 13)	16,746	39,983
Other liability (Note 9)	-	60,000
<b>Total liabilities</b>	<b>36,543</b>	<b>133,734</b>
<b>Shareholders' equity</b>		
Share capital (Note 10)	7,301,555	7,301,445
Other equity reserves	134,068	143,996
Deficit	(6,251,129)	(1,887,798)
<b>Total shareholders' equity</b>	<b>1,184,494</b>	<b>5,557,643</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,221,037</b>	<b>\$ 5,691,377</b>

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON APRIL 25, 2014:

"Simon Ridgway"

Simon Ridgway, Director

"William Katzin"

William Katzin, Director

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

**RACKLA METALS INC.**

(An Exploration Stage Company)

**STATEMENTS OF COMPREHENSIVE LOSS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

	<b>2013</b>	<b>2012</b>
<b>EXPLORATION EXPENDITURES</b> (Notes 8 and 13)	\$ 498,862	\$ 833,202
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Amortization	2,448	2,052
Legal and audit fees	25,380	35,534
Management fees (Note 13)	42,000	31,500
Office and administrative (Note 13)	104,961	97,090
Public relations (Note 13)	26,633	24,076
Salaries and benefits (Note 13)	86,330	117,455
Share-based payments (Note 11)	-	137,951
Transfer agent and regulatory fees (Note 13)	12,174	19,905
Travel and accommodation (Note 13)	11,999	17,555
	311,925	483,118
	(810,787)	(1,316,320)
Transfer on sale of available-for-sale investments (Note 5)	178,474	-
Loss on impairment of available-for-sale investments (Note 5)	(172,500)	(318,750)
Write-down of exploration and evaluation assets (Note 7)	(3,628,446)	(221,332)
<b>Loss before income taxes</b>	(4,433,259)	(1,856,402)
Deferred income tax recovery (Note 12)	60,000	-
<b>Net loss for the year</b>	<b>(4,373,259)</b>	<b>(1,856,402)</b>
<b>Other comprehensive loss</b>		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains (losses) on available-for-sale investments	178,474	(262,500)
Transfer of impairment on investments	-	318,750
Transfer on sale of available-for-sale investments	(178,474)	-
<b>Total comprehensive loss</b>	<b>\$ (4,373,259)</b>	<b>\$ (1,800,152)</b>
Basic and diluted loss per share	\$(0.09)	\$(0.05)
Weighted average number of common shares outstanding	50,494,077	39,391,822

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

**RACKLA METALS INC.**

(An Exploration Stage Company)

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

	Number of common shares	Share capital	Other equity reserves		Accumulated other comprehensive loss	Deficit	Total
			Share-based payments	Share purchase warrants			
Balance, December 31, 2011	36,067,626	\$ 6,163,395	\$ -	\$ -	\$ (56,250)	\$ (31,396)	\$ 6,075,749
Net loss for the year	-	-	-	-	-	(1,856,402)	(1,856,402)
Shares issued on private placements	13,612,500	1,089,000	-	-	-	-	1,089,000
Shares issued for finders' fees	243,750	19,500	-	-	-	-	19,500
Shares issued for property acquisition	569,996	65,350	-	-	-	-	65,350
Share issuance costs	-	(35,800)	-	6,045	-	-	(29,755)
Fair value losses on available-for-sale investments	-	-	-	-	(262,500)	-	(262,500)
Transfer of impairment on investments	-	-	-	-	318,750	-	318,750
Share-based payments	-	-	137,951	-	-	-	137,951
Balance, December 31, 2012	50,493,872	7,301,445	137,951	6,045	-	(1,887,798)	5,557,643
Net loss for the year	-	-	-	-	-	(4,373,259)	(4,373,259)
Fair value gain on available-for-sale investments	-	-	-	-	178,474	-	178,474
Transfer on sale of available-for-sale investments	-	-	-	-	(178,474)	-	(178,474)
Warrants exercised	366	110	-	-	-	-	110
Fair value of expired options	-	-	(9,928)	-	-	9,928	-
<b>Balance, December 31, 2013</b>	<b>50,494,238</b>	<b>\$ 7,301,555</b>	<b>\$ 128,023</b>	<b>\$ 6,045</b>	<b>\$ -</b>	<b>\$ (6,251,129)</b>	<b>\$ 1,184,494</b>

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

**RACKLA METALS INC.**

(An Exploration Stage Company)

**STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

	<b>2013</b>	<b>2012</b>
<b>Cash provided by (used in):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (4,373,259)	\$ (1,856,402)
Items not involving cash:		
Amortization	2,448	2,052
Loss on impairment of available-for-sale investments	172,500	318,750
Write-down of exploration and evaluation asset costs	3,628,446	221,332
Transfer on sale of available-for-sale investments	(178,474)	-
Deferred income tax recovery	(60,000)	-
Share-based payments	-	137,951
	(808,339)	(1,176,317)
Changes in non-cash working capital items:		
Taxes receivable	16,037	(20,815)
Prepaid expenses and deposits	19,861	(80,861)
Accounts payable and accrued liabilities	(13,954)	(3,028)
Due to related parties	(23,237)	16,036
	(809,632)	(1,264,985)
<b>FINANCING ACTIVITIES</b>		
Proceeds on issuance of common shares	110	1,149,000
Share issuance costs	-	(10,255)
	110	1,138,745
<b>INVESTING ACTIVITIES</b>		
Acquisition of exploration and evaluation assets	-	(240,279)
Proceeds from sale of available-for-sale investments	328,474	-
Purchase of property and equipment	-	(3,778)
	328,474	(244,057)
<b>Decrease in cash</b>	(481,048)	(370,297)
Cash, beginning of year	629,217	999,514
<b>Cash, end of year</b>	<b>\$ 148,169</b>	<b>\$ 629,217</b>

Supplemental disclosure with respect to cash flows – Note 17

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



# **RACKLA METALS INC.**

(An Exploration Stage Company)

## **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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### **1. CORPORATE INFORMATION**

Rackla Metals Inc. (the "Company") is pursuing opportunities related to exploration of mineral resource properties principally in the Yukon Territory, Canada. 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**

#### **Statement of Compliance**

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

#### **Basis of Measurement**

These 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 4.

#### **Ability to Continue as a Going Concern**

These 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 December 31, 2013, the Company had not yet achieved profitable operations, has accumulated losses of \$6,251,129 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.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

#### **(a) Loss Per Share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In a loss year, potentially dilutive equity instruments are excluded from the loss per share calculation, as the effect would be anti-dilutive. Basic and diluted loss per share is the same for all years presented.

#### **(b) Income Taxes**

Income tax on profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive loss, in which case the income tax is recognized in equity or other comprehensive loss.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, on a non-discounted basis using tax rates at the end of the reporting period applicable to the period of expected realization.

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.

#### **(c) Foreign Currency Translation**

The functional currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the exchange rate in effect as at the statement of financial position date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses, at the exchange rates on the date of the transactions.

Exchange differences arising from the translations are recorded as a gain or loss on foreign currency translation in profit or loss.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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#### **3. SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

##### **(d) Property, Equipment and Amortization**

###### *Recognition and Measurement*

Property and equipment are recorded at cost less accumulated amortization and any impairment losses.

###### *Amortization*

Amortization is recognized in profit or loss. Property and equipment are amortized over their estimated useful lives using the following method:

Leasehold improvements	7 - 8 years straight-line
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Additions during the year are amortized on a pro-rated basis.

##### **(e) Exploration and Evaluation Assets and Expenditures**

Acquisition costs for exploration and evaluation assets, net of recoveries, are capitalized on a property-by-property basis. Acquisition costs may include cash consideration, the value of common shares issued based on fair values, and the fair value of share purchase warrants and options issued based on amounts determined using the Black-Scholes option pricing model, for mineral property interests pursuant to the terms of the agreement.

Exploration expenditures, net of recoveries, are charged to operations as incurred. After a property is determined by management to be commercially feasible, development expenditures on the property are capitalized.

When there is little prospect of further work on a property being carried out by the Company or its optionee, when a property is abandoned or when the capitalized costs are no longer considered recoverable, the related property costs are written down to management's estimate of their net recoverable amount. Acquisition costs are also tested for impairment before the assets are transferred to development properties. The costs related to a property from which there is production, together with the costs of production equipment, will be depleted and amortized using the unit-of-production method.

Exploration and evaluation assets acquired under an option agreement where payments are made at the sole discretion of the Company are capitalized at the time of payment. 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 transferee 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, with any excess cash recognized in profit or loss.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **(f) Impairment of Non-Financial Assets**

Impairment tests on non-financial assets, including exploration and evaluation assets are undertaken annually at the financial year-end and whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit ("CGU"), which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss, except to the extent it reverses gains previously recognized in other comprehensive loss.

##### **(g) Provisions**

###### *Rehabilitation Provision*

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the year in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and revegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related exploration properties. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

At December 31, 2013, exploration and evaluation rehabilitation costs was not considered significant.

###### *Other Provisions*

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, where it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **(h) Share Capital**

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants and options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "unit"), and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company. The fair value of the units components sold is measured using the residual value approach.

#### *Flow-through Shares*

The Company has issued flow-through common shares to finance a portion of its exploration programs in Canada. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) share capital, and ii) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as an other liability. The Company allocated the proceeds received first to share capital based on the market trading price of the common shares at the time the flow-through shares are priced, and any excess is allocated to other liability.

Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of the tax reduction renounced to the shareholders. The premium reversal is recognized as a recovery in deferred tax expense and the related deferred tax, if any, is recognized as tax provision.

Proceeds received from the issuance of flow-through shares are intended to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's reporting year is disclosed separately in Note 9.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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#### **3. SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

##### **(i) Share-based Payments**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period using the graded vesting method. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the fair value of goods or services received in exchange for the share-based payment cannot be reliably estimated, they are measured by use of a valuation model.

All equity-settled share-based payments are reflected in other equity reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in other equity reserves is credited to share capital, adjusted for any consideration paid. For those unexercised options and share purchase warrants that expired, the recorded value is transferred to deficit.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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#### **3. SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

##### **(j) Financial Instruments**

###### **Financial Assets**

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

###### *Fair Value Through Profit or Loss ("FVTPL")*

The Company has recognized its cash at FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in income.

###### *Loans and Receivables*

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

###### *Available-for-Sale Investments*

Non-derivative financial assets that do not meet the definition of loans and receivables are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive loss. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

On sale or impairment, the cumulative amount recognized in other comprehensive loss is reclassified from accumulated other comprehensive loss to profit or loss.

###### *Impairment of Financial Assets*

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **(j) Financial Instruments (cont'd)**

###### **Financial Liabilities**

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemptions, as well as any interest or coupon payable while the liability is outstanding.

Accounts payable and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period, which are unpaid. Accounts payable and accrued liabilities amounts are unsecured and are usually paid within 45 days of recognition.

The Company has made the following designations of its financial instruments:

Cash	FVTPL
Available-for-sale investments	Available-for-sale financial assets
Accounts payable and accrued liabilities	Other financial liabilities
Due to related parties	Other financial liabilities

##### **(k) New Standards and Interpretations Not Yet Adopted**

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. In response to delays to the completion of the remaining phases of the project, the IASB issued amendments to IFRS 9 and has indefinitely postponed the adoption of this standard. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9.

###### *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 Company has not early-adopted the revised standards and is currently assessing the impact that the standards will have on the financial statements.



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#### **4. 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:

- (a) 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.

- (b) 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.
- (c) 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.

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#### 5. AVAILABLE-FOR-SALE INVESTMENTS

As of December 31, 2013, 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 December 31, 2013. 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.

During the year ended December 31, 2012, the Company determined that the decline in value of the Cordoba and Solomon shares was other than temporary, and accordingly recorded impairments of \$300,000 and \$18,750, respectively. 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. As at December 31, 2013, the carrying amount for the available-for-sale investments was \$18,500 (2012: \$341,000).

	<b>Cordoba</b>	<b>Solomon</b>	<b>Voyager</b>	<b>Total</b>
Balance, December 31, 2011	\$ 540,000	\$ 52,500	\$ 11,000	\$ 603,500
Impairment of investments	(300,000)	(18,750)	-	(318,750)
Change in fair value	60,000	(3,750)	-	56,250
Balance, December 31, 2012	300,000	30,000	11,000	341,000
Impairment of investments	(150,000)	(22,500)	-	(172,500)
Change in fair value	178,474	-	-	178,474
Disposition of investments	(328,474)	-	-	(328,474)
<b>Balance, December 31, 2013</b>	<b>\$ -</b>	<b>\$ 7,500</b>	<b>\$ 11,000</b>	<b>\$ 18,500</b>

#### 6. PROPERTY AND EQUIPMENT

	<b>Leasehold improvements</b>
<b>Cost</b>	
Balance, December 31, 2011	\$ 15,282
Additions	3,778
Balance, December 31, 2012	19,060
Additions	-
<b>Balance, December 31, 2013</b>	<b>\$ 19,060</b>
<b>Accumulated amortization</b>	
Balance, December 31, 2011	\$ 160
Charge for the year	2,052
Balance, December 31, 2012	2,212
Charge for the year	2,448
<b>Balance, December 31, 2013</b>	<b>\$ 4,660</b>
<b>Carrying amounts</b>	
At December 31, 2012	\$ 16,848
<b>At December 31, 2013</b>	<b>\$ 14,400</b>

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## 7. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition costs of its mineral property interests during the years ended December 31, 2013 and 2012:

	Scarlet	Sixty Mile	Rivier	Ten Mile Creek	Face	Newt	Iola	Total
Balance, December 31, 2011	\$ 886,745	\$ 3,209,664	\$ 72,275	\$ 15,406	\$ 90,785	\$ 221,332	\$ 20,510	\$ 4,516,717
Acquisition costs - cash	8,796	46,000	-	75,000	110,483	-	-	240,279
Acquisition costs - shares	-	60,600	4,750	-	-	-	-	65,350
Write-off acquisition costs	-	-	-	-	-	(221,332)	-	(221,332)
Balance, December 31, 2012	895,541	3,316,264	77,025	90,406	201,268	-	20,510	4,601,014
Write-off acquisition costs	-	(3,316,263)	-	(90,406)	(201,267)	-	(20,510)	(3,628,446)
<b>Balance, December 31, 2013</b>	<b>\$ 895,541</b>	<b>\$ 1</b>	<b>\$ 77,025</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 972,568</b>

### (i) Scarlet Property – Yukon Territory

The Scarlet Property consists of 743 claims located in the Mayo Mining District, Yukon. The Property is divided into two claim blocks: Scarlet East, which consists of 230 claims, and Scarlet West, which consists of 513 claims.

On March 27, 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 making \$5,000,000 in exploration expenditures on the property as follows:

- \$500,000 on or before December 31, 2013 (incurred);
- an additional \$1,000,000 on or before December 31, 2014;
- an additional \$1,500,000 on or before December 31, 2015; and
- an additional \$2,000,000 on or before December 31, 2016.

Also required to keep the option in good standing is the completion by Strategic of not less than 1,000 metres of drilling on or before December 31, 2012 (completed). Upon exercising the option, Strategic and the Company will respectively hold 60% and 40% interests in the Scarlet East claim block.

### (ii) Sixty Mile Area – Yukon Territory

The Sixty Mile Property, located in the Dawson Mining District, Yukon, consists of 638 claims, which are 100% owned.

The Company held option agreements with various landowners to acquire a 100% interest in another 115 claims, which required cash payments and the issuance of shares over a four-year period. However, during the current year, the Company terminated options pertaining to all 115 claims.

While the claims held as of December 31, 2013 remain in good standing, the Company does not expect to perform any exploration programs on the property for the foreseeable future. As such, during the year ended December 31, 2013, the Company determined the carrying value of the Sixty Mile Area property to be impaired and recorded a write-down of \$3,316,263.

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#### 7. EXPLORATION AND EVALUATION ASSETS (cont'd)

##### (iii) 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 (the "Initial Option") with the property owner.

The Initial Option was amended in July 2012 and again in May 2013. In order to exercise the amended Initial Option, cash and share payments are payable to the property owner according to the following schedule:

- (a) 50,000 common shares on or before July 18, 2012 (shares issued);
- (b) \$20,000 cash and 50,000 common shares on or before July 18, 2014;
- (c) \$40,000 cash and 50,000 common shares on or before July 18, 2015; and
- (d) \$80,000 cash and 50,000 common shares on or before July 18, 2016.

An option to acquire a 60% interest in the property (the "Rivier Option") was granted to Voyager in 2011 by Radius Gold Inc. ("Radius"), which subsequently assigned the Rivier Option to the Company. The Rivier Option was subsequently amended in 2012 and 2013.

In order to keep the Rivier Option in good standing, Voyager must pay \$200,000 cash to the Company, issue a total of 1,000,000 common shares of Voyager to the Company and incur an aggregate of \$1,000,000 in exploration expenditures on the property, as follows:

<b>Due date</b>	<b>Cash</b>	<b>Shares</b>	<b>Expenditures</b>
Upon completion of the Arrangement (shares received December 9, 2011)	\$ -	200,000	\$ -
By December 31, 2011 (expenditures incurred)	-	-	100,000
On public listing of Voyager	-	200,000	-
By November 30, 2014	50,000	200,000	200,000
By November 30, 2015	50,000	200,000	300,000
By November 30, 2016	100,000	200,000	400,000
	<b>\$ 200,000</b>	<b>1,000,000</b>	<b>\$ 1,000,000</b>

The 200,000 Voyager shares issued to the Company had a fair value of \$11,000 at the date of transaction.

The Company must keep the Initial Option in good standing as long as the Rivier Option remains outstanding. Assuming the Initial Option and the Rivier Option are exercised, a joint venture will be formed to further develop the property on the basis of Voyager 60% / the Company 40%. Pursuant to the Initial Option, the Company's and Voyager's ownership will be subject to a 3% net smelter return royalty ("NSR"). An advance royalty payment of \$20,000 is to be paid to the property owner annually beginning July 18, 2015 until the property is deemed to be in production. The Company and Voyager may jointly elect to reduce the NSR to 2% by making a one-time payment to the property owner of \$1,000,000.

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#### **7. EXPLORATION AND EVALUATION ASSETS** *(cont'd)*

##### (iv) Ten Mile Creek Property – Yukon Territory

The Ten Mile Creek Property, Yukon, is comprised of 323 claims, of which the Company owned a 100% interest in 269 claims, and held an option (the "Option") to earn a 100% interest in 54 claims.

The following cash and/or share payments to the property owner were required in order to exercise the Option:

- a) \$75,000 on or before May 31, 2013; and
- b) either \$100,000 or issue 400,000 shares, on or before May 31, 2013, the method of such payment at the discretion of the property owner.

In May 2013, the Company terminated the Option prior to making the 2013 payments noted above. As part of the termination requirements, the Company transferred all of its 100% owned claims to the property owner. As a result of the disposal of the Option and the 100% owned claims, the property's carrying cost of \$90,406 was written off during the year ended December 31, 2013.

##### (v) Face Property – Yukon Territory

As of December 31, 2013, the Face Property is comprised of 529 claims that are 100% owned in the Dawson Mining District, Yukon. During the year ended December 31, 2013, the Company let lapse 176 claims forming part of the Face Property and determined the carrying value of the Face Property to be impaired, recording a write-down of \$201,267.

##### (vi) Newt Property – Yukon Territory

The Newt Property is comprised of 462 claims that are 100% owned in the Dawson Mining District, Yukon. In 2012, the Company recorded a write-down of \$221,332 on acquisition costs for the Newt Property bringing the carrying value to nil.

##### (vii) Lola Property – Yukon Territory

The Lola Property is comprised of 80 claims that are 100% owned in the Whitehorse Mining District, Yukon. During the year ended December 31, 2013, the Company allowed the 80 claims to lapse, and as a result, the property's carrying cost of \$20,510 was written off.

##### (viii) King Solomon's Dome Property – Yukon Territory

On August 30, 2013, the Company was granted the option to acquire a 50% interest in the King Solomon's Dome property located in the Dawson Mining District, Yukon, from Kestrel Gold Inc. ("Kestrel"). In order to exercise the option, the Company was required to incur a total of \$1,500,000 in exploration expenditures on the property, and make cash payments to Kestrel totaling \$75,000, within 24 months. Prior to December 31, 2013, management decided to terminate the Company's option on the property.

During the year ended December 31, 2013, the Company incurred \$321,745 in exploration expenditures on the property (Note 8).

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**8. EXPLORATION EXPENDITURES**

During the year ended December 31, 2013, the Company incurred the following exploration expenditures:

	King Solomon's Dome	Scarlet West	Scarlet East	Sixty Mile	Face	Iola	Yukon General	Total
Assays	\$ 30,061	\$ 353	\$ -	\$ 625	\$ 30,147	\$ 1,592	\$ -	\$ 62,778
Camp expenses	10,833	1,245	-	-	13,342	355	2,932	28,707
Drilling	214,150	-	-	-	-	-	-	214,150
Field expense	2,192	-	-	-	2,013	-	-	4,205
Geological fees	53,882	5,127	440	5,691	66,309	8,535	4,321	144,305
Licenses and taxes	-	-	-	-	1,250	-	-	1,250
Office and administration	374	-	-	-	39	-	300	713
Travel	10,253	-	-	659	26,041	5,801	-	42,754
<b>Balance, end of year</b>	<b>\$ 321,745</b>	<b>\$ 6,725</b>	<b>\$ 440</b>	<b>\$ 6,975</b>	<b>\$ 139,141</b>	<b>\$ 16,283</b>	<b>\$ 7,553</b>	<b>\$ 498,862</b>

During the year ended December 31, 2012, the Company incurred the following exploration expenditures:

	Scarlet West	Scarlet East	Sixty Mile	Face	Newt	Iola	Ten Mile Creek	Yukon General	Total
Assays	\$ 62,683	\$ -	\$ 2,448	\$ 53,709	\$ -	\$ 11,346	\$ -	\$ -	\$ 130,186
Camp expenses	105,757	-	1,755	25,360	-	19,814	-	-	152,686
Field expense	66,687	-	1,089	46,486	-	9,545	-	1,827	125,634
Geological fees	56,708	12,555	39,453	42,769	8,815	16,822	41,083	19,511	237,716
Geophysical	542	-	9,321	-	-	-	-	-	9,863
Licenses and taxes	12,020	-	10,004	3,339	-	522	-	320	26,205
Office and administration	1,401	-	93	559	-	948	167	263	3,431
Shipping	5,955	-	342	-	-	550	-	-	6,847
Travel	26,583	120	3,812	63,651	-	8,037	-	-	102,203
Vehicles	13,593	-	4,026	10,506	-	10,306	-	-	38,431
<b>Balance, end of year</b>	<b>\$ 351,929</b>	<b>\$ 12,675</b>	<b>\$ 72,343</b>	<b>\$ 246,379</b>	<b>\$ 8,815</b>	<b>\$ 77,890</b>	<b>\$ 41,250</b>	<b>\$ 21,921</b>	<b>\$ 833,202</b>

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#### 9. OTHER LIABILITY

The other liability balance is the liability portion of the flow-through shares issued. The following summarizes the liability portion of the flow-through share issuances:

Balance, December 31, 2011	\$	-
Liability incurred on flow-shares issued		60,000
Balance, December 31, 2012		60,000
Settlement of flow-through share liability on incurring expenditures		(60,000)
<b>Balance, December 31, 2013</b>	<b>\$</b>	<b>-</b>

On October 11, 2012, the Company closed a private placement by issuing 3,000,000 flow-through units at a price of \$0.10 per unit for gross proceeds of \$300,000, and recognized a liability for flow-through shares of \$60,000 (the flow-through shares were issued at a premium of \$0.02 per share).

The Company renounced the \$300,000 in flow-through eligible expenditures as of December 31, 2012 using the Look-back Rule, in accordance with Government of Canada flow-through regulations, whereby the exploration expenditures must be incurred by December 31, 2013. As at December 31, 2013, the Company has fulfilled its \$300,000 exploration expenditure commitment, and therefore the liability reduced to \$nil.

#### 10. SHARE CAPITAL AND RESERVES

##### (a) Common Shares

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

During the year ended December 31, 2013, the Company issued common shares as follows:

- i) The Company issued 366 common shares upon the exercise of 366 share purchase warrants at a price of \$0.30 per share for gross proceeds of \$110.

During the year ended December 31, 2012, the Company issued common shares as follows:

- i) On October 11, 2012, the Company closed a non-brokered private placement consisting of 3,000,000 flow-through units at \$0.10 per unit for gross proceeds of \$300,000 and 10,612,500 units at \$0.08 per unit for gross proceeds of \$849,000. The sale proceeds for the 10,612,500 non-flow-through units were allocated all to share capital and none to warrants. The sale proceeds for the 3,000,000 flow-through units were bifurcated with \$240,000 being allocated to share capital and \$60,000 being charged as other liability. Each unit consists of one common share and one-half of one warrant, each whole warrant entitling the holder to purchase one additional common share at \$0.10 exercisable for two years. The Company issued 243,750 units and 243,750 warrants as finders' fees in connection with the financing, with each finder's fee warrant having the same terms as the unit warrants. The fair value of the 243,750 finders' fee warrants was \$6,045 and was recorded as share issuance costs and an offset to other equity reserve. The fair value of each finder's fee warrant has been estimated as of the date of the issuance using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 1.15%, dividend yield of 0%, volatility of 102% and expected life of two years.
- ii) The Company issued 519,996 shares with a fair value of \$60,600 as part of option payments relating to portions of the Sixty Mile Property and issued 50,000 shares with a fair value of \$4,750 for an option payment relating to the Rivier Property (Note 7).

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#### 10. SHARE CAPITAL AND RESERVES (cont'd)

##### (b) Share Purchase Warrants

A summary of share purchase warrants activity for the years ended December 31, 2013 and 2012 is as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2011	36,067,625	\$0.30
Issued	7,171,875	\$0.10
Balance, December 31, 2012	43,239,500	\$0.27
Expired	(36,067,259)	\$0.30
Exercised	(366)	\$0.30
<b>Balance, December 31, 2013</b>	<b>7,171,875</b>	<b>\$0.10</b>

As at December 31, 2013, the following share purchase warrants were outstanding:

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

As at December 31, 2012, the following share purchase warrants were outstanding:

Expiry date	Number of warrants	Exercise price
June 8, 2013	36,067,625	\$0.30
October 10, 2014	7,171,875	\$0.10
	<b>43,239,500</b>	

The weighted average remaining contractual life of outstanding share purchase warrants as at December 31, 2013 is 0.77 (2012: 0.66) years.

#### 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.



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#### 11. SHARE-BASED PAYMENTS (cont'd)

##### Share Purchase Options

The following is a summary of changes in options for the year ended December 31, 2013:

Expiry date	Exercise price	Opening balance	During the year			Closing balance	Vested and exercisable
			Granted	Exercised	Cancelled		
July 19, 2022	\$0.15	1,320,000	-	-	(95,000)	1,225,000	1,225,000
<b>Weighted average exercise price</b>		<b>\$0.15</b>	<b>-</b>	<b>-</b>	<b>\$0.15</b>	<b>\$0.15</b>	<b>\$0.15</b>

The following is a summary of changes in options for the year ended December 31, 2012:

Expiry date	Exercise price	Opening balance	During the year			Closing balance	Vested and exercisable
			Granted	Exercised	Cancelled		
July 19, 2022	\$0.15	-	1,320,000	-	-	1,320,000	1,320,000
<b>Weighted average exercise price</b>		<b>-</b>	<b>\$0.15</b>	<b>-</b>	<b>-</b>	<b>\$0.15</b>	<b>\$0.15</b>

##### Fair Value of Options Issued During the Year

There were no options granted during the year ended December 31, 2013.

The weighted average fair value at grant date of options granted during the year ended December 31, 2012 was \$0.105 per option.

The weighted average remaining contractual life of the options outstanding at December 31, 2013 is 8.55 (2012: 9.55) years.

The model inputs for options granted during the year ended December 31, 2012 included:

Share price at grant date	Exercise price	Risk-free interest rate	Expected life	Volatility factor	Dividend yield
\$0.11	\$0.15	1.61%	10 years	126%	0%

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.

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#### 11. SHARE-BASED PAYMENTS *(cont'd)*

##### Expenses Arising from Share-based Payments Transactions

Total expenses arising from the share-based payment transactions recognized during the year ended December 31, 2013 as part of share-based payment expense were \$Nil (2012: \$137,951).

As of December 31, 2013, there was no unrecognized compensation costs related to share-based payment awards not yet exercisable.

##### Amounts Capitalized Arising from Share-based Payments Transactions

Share-based payment transactions that were capitalized during the year ended December 31, 2013 as part of exploration and evaluation acquisition costs were \$Nil (2012: \$65,350).

#### 12. DEFERRED INCOME TAXES

Effective April 1, 2013, the British Columbia provincial tax increased from 10.00% to 11.00%. The overall increase in tax rates has resulted in an increase in the Company's statutory tax rate from 25.00% to 25.75%.

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 25.75% (2012 - 25.00%) to income before income taxes. The reasons for the differences are as follows:

	2013	2012
Net loss for the year	\$ (4,373,259)	\$ (1,856,402)
Canadian statutory tax rate	25.75%	25.00%
Income tax recovery computed at statutory rates	(1,126,000)	(464,000)
Items not deductible for income tax purposes	-	35,000
Effect of change in tax rate	(18,000)	-
Change in timing differences	862,000	(5,000)
Unused tax losses and tax offsets not recognized in tax asset	282,000	434,000
Premium on issuance of flow-through shares	60,000	-
<b>Deferred income tax recovery</b>	<b>\$ 60,000</b>	<b>\$ -</b>

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2013	2012
Non-capital losses	\$ 1,127,000	\$ 370,000
Available-for-sale investments	96,000	160,000
Share issue costs and other	28,000	34,000
Mineral properties	1,324,000	1,054,000
Capital losses	63,000	-
<b>Unrecognized deductible temporary differences</b>	<b>\$ 2,638,000</b>	<b>\$ 1,618,000</b>

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#### 12. DEFERRED INCOME TAXES (cont'd)

As at December 31, 2013, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years.

Non-capital Canadian tax losses expire as follows:

<u>Year of expiry</u>	<u>Taxable losses</u>
2031	\$ 21,000
2032	349,000
2033	757,000
	<u>\$ 1,127,000</u>

#### 13. RELATED PARTY TRANSACTIONS

The Company's related parties with transactions during the years ended December 31, 2013 and 2012 consist of directors, officers and companies with common directors as follows:

<u>Related party</u>	<u>Nature of transactions</u>
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 years ended December 31, 2013 and 2012, the Company reimbursed Gold Group for the following costs:

	<u>2013</u>	<u>2012</u>
General and administrative expenses:		
Office and administration	\$ 88,309	\$ 48,475
Public relations	18,531	4,634
Salaries and benefits	78,710	61,528
Transfer agent and regulatory fees	2,609	1,836
Travel and accommodation	8,885	5,303
	<u>\$ 197,044</u>	<u>\$ 121,776</u>
Exploration expenditures	<u>\$ 14,116</u>	<u>\$ 47,296</u>

Effective July 1, 2012, 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.

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

#### 13. RELATED PARTY TRANSACTIONS (cont'd)

- (b) During the years ended December 31, 2013 and 2012, the Company reimbursed Radius for the following costs:

	2013	2012
General and administrative expenses:		
Office and administration	\$ 1,527	\$ 37,719
Public relations	-	9,428
Salaries and benefits	-	40,502
Transfer agent and regulatory fees	-	3,413
Travel and accommodation	-	4,052
	<u>\$ 1,527</u>	<u>\$ 95,114</u>
Exploration expenditures	<u>\$ -</u>	<u>\$ 54,932</u>

Radius was reimbursed by the Company for these shared costs and other business related expenses paid by Radius on behalf of the Company. Salaries and benefits costs included those for the Vice President Corporate Development, Chief Financial Officer and Corporate Secretary. The cost-sharing arrangement with Radius terminated effective June 30, 2012.

- (c) Deposits as of December 31, 2013 consist of \$61,000 (2012: \$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.
- (d) Amounts due to related parties as of December 31, 2013 consist of \$15,219 (2012: \$22,444) due to Gold Group and \$1,527 (2012: \$17,539) due to Radius. The balance due to Gold Group is collateralized by a deposit, and the amount due to Radius is 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:

	Years ended December 31,	
	2013	2012
Management fees	\$ 42,000	\$ 31,500
Salaries and benefits	17,866	20,510
Share-based payments	-	47,029
	<u>\$ 59,866</u>	<u>\$ 99,039</u>

Total share-based payments to directors not specified as key management personnel during the year ended December 31, 2013 was \$Nil (2012: \$23,514).

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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#### **14. 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 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.

###### *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 \$1,850 decrease in equity.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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

##### **(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 December 31, 2013, the Company had cash of \$148,169 (2012: \$629,217) available to apply against short-term business requirements and current liabilities of \$36,543 (2012: \$73,734). 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 December 31, 2013 are carried at amortized cost, apart from the available-for-sale investment in a public company with shares in an active market of \$7,500, 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 approximate 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.

##### **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 in 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.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

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#### **15. 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 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 year. As at December 31, 2013, 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.

#### **16. 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.

#### **17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

During the years ended December 31, 2013 and 2012, no cash was paid for interest or income taxes.

##### **Non-cash transactions**

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

During the year ended December 31, 2013, there were no non-cash transactions.

During the year ended December 31, 2012, the Company completed the following non-cash transactions:

- (a) Issued 569,996 common shares with a value of \$65,350 towards acquisition costs of exploration and evaluation properties.
- (b) Issued 243,750 units, consisting of 243,750 common shares and 121,875 share purchase warrants at \$0.08 per unit, with a value of \$19,500 for private placement finders' fees; and
- (c) Issued 243,750 share purchase warrants with a value of \$6,045 for private placement finders' fees.



(the “Company”)

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

### **Year End Report – December 31, 2013**

#### **General**

This Management’s Discussion and Analysis (“MD&A”) supplements, but does not form part of, the audited financial statements of the Company for the year ended December 31, 2013. The following information, prepared as of April 25, 2014, should be read in conjunction with the December 31, 2013 financial statements. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). All amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information relevant to the Company’s activities can be found on SEDAR at ([www.sedar.com](http://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.



## **Business of the Company**

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 property portfolio described below.

### **Scarlet Property, Rackla Belt Area**

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.

Radius Gold Inc. ("Radius") conducted an exploration program in the 2011 summer season including geochemical surveys (stream sediment, soil and rock sampling), airborne geophysics (magnetic and radiometrics) and geological mapping. Results from the soil sample survey identified strongly anomalous values for gold and As-Hg-Sb-Tl pathfinder elements.

In March 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 meters 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.

Strategic reported in a news release dated September 5, 2012 that mapping and drilling of the Scarlet East property identified favourable host rocks and several structurally complex zones that coincide with 2011 gold and arsenic soil geochemical anomalies. Although realgar was locally identified at surface within one of the soil anomalies no high gold values were returned from surface samples. A total of five diamond drill holes (1,167.68 metres) were drilled in the 2012 exploration season and no significant gold values were returned from drill core samples.

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 that it had incurred a total of \$681,524 to December 31, 2013.

#### *Scarlet West*

Although the property was initially staked for its potential to host lode gold deposits, work and research by Radius and Company personnel 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. Radius discovered an additional zone, the Larry Zone, in 2011 that 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.

In 2011, Radius collected 1,136 soil samples and carried out a 306 line kilometre aeromagnetic and radiometric survey over the south eastern side of the property. The property was also geologically mapped at a reconnaissance scale.

In April 2012, an additional 15 claims were staked by the Company after claims held by a competitor over the Chopper Pad Zone lapsed. Exploration consisting of soil and rock sampling, prospecting and geological mapping commenced in late June and was completed at the end of July 2012. A total of 2,399 soil samples and 95 rock samples were collected following up on anomalous values in soil for gold, thallium, mercury, arsenic, lead and zinc reported in 2011 and extending the soil sample coverage.

Geochemical results from rock and soil samples returned significant anomalies for zinc from the southeast side of the property. A linear zinc in soil anomaly extending over four kilometres that includes both the Chopper Pad and Discovery Zone was delineated. Most of the soil lines, spaced at 200 m, crossing the host carbonate horizon, contained 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.

#### Sixty Mile Property

Due to market conditions, during the past 12 months the Company has terminated all of its options to acquire claims in the Sixty Mile area, Yukon Territory. Accordingly, the Sixty Mile Property currently consists of 638 claims (approximately 12,958 hectares, 33,016 acres) which are owned 100% by the Company. These claims are in good standing until 2016 or later. No further work is currently planned for this ground.

The property is a large land position covering 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. The hard rock source for this placer gold has never been determined. The regional geology, geochemical signature and structural setting have similarities to the orogenic type Jurassic age White Gold deposit and bedrock mineralization found in the Klondike district. Radius found an orogenic bedrock source for the placer gold within a package of northeast trending brittle siliciclastic metasediments cut by thrust faults (the "Thrust Fault Zone"). This area is likely one of the sources for the extensive placer gold deposits that has been mined from the northwest trending creeks that cut this unit. The host units are extensive with multiple beds of quartzite hosting cross cutting gold bearing quartz veins.

In addition, Radius identified a porphyry copper target (the "Graben Fault Zone) within the Sixty Mile river valley where highly altered Carmacks volcanic rocks are intruded by granitoids with porphyry style copper mineralization. Surrounding the granitoids are irregular epithermal type quartz-carbonate-sulfide veins that locally contain gold.

#### Face Property

During 2013, the Face property was reduced from 705 to 529 claims after 176 claims were allowed to lapse in September 2013. In April 2014, a further 382 claims were relinquished, reducing the property to 147 claims, in two groups, located in western Yukon, 8 kilometres and 25 kilometres, respectively, due east of Eagle, Alaska. The initial claims were staked in 2010, centred on a government regional silt survey gold anomaly, located over carbonate rocks analogous to the Atac Resources' Rackla belt, and with a similar spatial relationship to the Dawson thrust. The claim block covers prospective stratigraphy and stream drainages with anomalous gold +/- arsenic +/- antimony +/- mercury values in stream sediment samples reported by the Geological Survey of Canada.

A first pass reconnaissance ridge-and-spur soil sampling (2,077 samples) and stream sampling survey (114 samples) was undertaken by Radius in the summer of 2011 and the Company in 2012. Results define three broad coherent, kilometre scale, silver in soil anomalies (>1.7 ppm - >10.0 ppm Ag). Within these broad silver anomalies are samples anomalous in gold (>18 ppb) and arsenic (>28 ppm). Most of the silver anomalies also have coincident anomalous values for thallium, antimony, mercury, antimony, lead and zinc.

Work in July 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 sampling in 2013 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 in 2013. At the present time no additional work is planned. The work carried out to date over the silver anomaly has been filed for assessment to keep those claims in good standing until April 10, 2019.

#### Iola Claims

In late October 2011, Radius staked 80 claims (1,670 hectares, 4,130 acres) over a silver-base metal target, the Yukon Minfile Iola occurrence. The Iola claims are located approximately 115 kilometres northeast of Whitehorse and are about 15 kilometres from the South Canol Road. A short reconnaissance exploration program in June 2012 collected 439 soil, 19 rock and 3 stream sediment samples. It is an early stage property and geochemical results from the widespread samples show a coincident, northwest trending, silver, lead and thallium in soil anomaly over a 1 kilometre by 1.5 kilometres area in the center of the property. Forty of the soil samples contained silver values ranging between 3 ppm and 17 ppm. Twenty-eight soil samples, most from the west side of the property, returned between 10 - 92 ppb gold and one sample returned 1,097 ppb with most of these samples also containing anomalous arsenic values.

A short program of geochemical sampling and geological mapping following up on anomalous results obtained in 2012 was carried out during July 2013. As geochemical results were low for the elements of interest and further exploration work was not warranted, the claims were allowed to lapse.

#### 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, was in turn granted the option to acquire from the Company a 60% interest in the property. Voyager has to date issued to the Company 200,000 common shares of Voyager pursuant to its option agreement.

The Rivier claims are located 90 kilometres southeast of Ross River, Yukon and cover an ultramafic body shedding anomalous gold values 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 developed by Ground Truth Exploration.

#### King Solomon's Mine Property

In August 2013, the Company was granted an option to acquire a 50% interest in the King Solomon's Dome Property located 30 km southeast of Dawson City in the Yukon. The Company completed a diamond drill program in September consisting of three holes (1,191 metres) spaced approximately 250 to 300 metres apart, to test known quartz veins, surface rock and soil geochemical anomalies and resistivity and induced polarization (IP) geophysical anomalies. The drill results show that all three holes intersected low grade gold mineralization with some short higher grade gold intervals, for example 4.89 g/t Au over 13 cm in hole DDH13-02. Hole DDH13-02 cut several

intervals of gold mineralization between 34 metres and 127 metres down hole which are believed to be related to the easterly dipping Sheba Vein system and its hanging wall mineralization (see Kestrel Gold Inc. news release: December 16, 2011). The gold mineralization, although generally low grade, shows continuity with surface trench sampling and remains open to depth.

The two zones of gold mineralization and increased sulphide content encountered in DDH13-01 and DDH13-03 are believed to correlate with the geophysical chargeability anomaly at depths of 217 – 224 metres and 189 – 195.5 metres respectively and also with increased sulphide content. No visible gold was encountered and no samples returned greater than 5 g/t Au in the three holes drilled.

Further drilling was not warranted, and the Company relinquished its option on the property in November 2013.

#### Ten Mile Creek Property

The Company had an option to acquire a 100% interest in the Ten Mile Creek property, and in turn had granted to Solomon Resources Limited (“Solomon”) an option to earn a 51% interest in the property. In May 2012, the option to Solomon was terminated due to Solomon’s failure to make the required option payments to the Company. Since then, the Company has not found a joint venture partner for this project, and accordingly, in May 2013 the Company decided to relinquish its option to acquire the property.

*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.*

#### **Selected Financial Information**

The following table provides financial results for the years ended December 31, 2013 and 2012 and the period from incorporation on September 20, 2011 to December 31, 2011:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Exploration expenditures	498,862	833,202	-
General and administrative expenses	311,925	483,118	31,396
Net loss	4,373,259	1,856,402	31,396
Basic and diluted loss per share	0.09	0.05	0.00
Total assets	1,221,037	5,691,377	6,136,475
Total liabilities	36,543	133,734	60,726
Shareholders’ equity	1,184,494	5,557,643	6,075,749

The amount of total assets as of December 31, 2011 reflects the spin-out transaction completed on December 8, 2011. In addition to the \$1.0 million in cash and available-for-sale investments with a December 31, 2011 fair value of \$603,500 received by the Company, the fair value of the mineral properties transferred to the Company was deemed to be \$4,527,717. This amount was capitalized as exploration and evaluation assets. During the period from incorporation on September 20, 2011 to December 31, 2011, no exploration expenditures and minimal general and administrative expenses were incurred. Total assets and shareholders’ equity were significantly less as of December 31, 2013 due to write-downs of certain exploration and evaluation assets totaling \$3,628,446.

## Quarterly Information

The following table provides quarterly information for the eight fiscal quarters ended December 31, 2013:

<b>Quarter Ended</b>	<b>Dec. 31, 2013</b>	<b>Sep. 30, 2013</b>	<b>Jun. 30, 2013</b>	<b>Mar. 31, 2013</b>	<b>Dec. 31, 2012</b>	<b>Sep. 30, 2012</b>	<b>Jun. 30, 2012</b>	<b>Mar. 31, 2012</b>
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Exploration expenditures (net)	55,150	416,014	11,191	16,507	12,238	483,208	263,386	74,370
General and administrative expenses	73,571	62,617	75,833	99,904	123,376	226,368	82,907	50,467
Net loss	3,646,251	268,342	120,976	337,690	675,696	709,576	346,293	124,837
Basic and diluted loss per share	0.07	0.01	0.00	0.01	0.02	0.02	0.01	0.00

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 June 30, 2012 and September 30, 2012 and 2013 due to the seasonal nature of exploration in the Yukon.

## Results of Operations

### *Quarter ended December 31, 2013*

The quarter ended December 31, 2013 had a net loss of \$3,646,251 compared to \$675,696 for the quarter ended December 31, 2012, an increase of \$2,970,555. The current quarter net loss was much higher due to a write-down of \$3,517,530 on exploration and evaluation assets during that period compared a write-down of \$221,332 in the comparative quarter. The comparative quarter net loss also included an impairment charge of \$318,750 on available-for-sale investments whereas there was no such charge for the current quarter.

Exploration expenditures in the current quarter totalled \$55,150 compared to \$12,238 in the comparative quarter, an increase of \$42,912.

General and administrative expenses for the quarter ended December 31, 2013 totalled \$73,571 compared to \$123,376 for the comparative quarter, a decrease of \$49,805. All current quarter general and administrative costs were lower with notable decreases being \$15,772 in office and administration, \$13,516 in salaries and benefits and \$10,006 in legal and audit fees. Current quarter costs were lower due to an overall decrease in business activity and cost cutting initiatives.

### *Year ended December 31, 2013*

The net loss for the year ended December 31, 2013 was \$4,373,259 compared to \$1,856,402 for the year ended December 31, 2012, an increase of \$2,516,857. As in the quarterly period comparison, the current year net loss includes a significant write-down of exploration and evaluation asset costs, the total being \$3,628,446 compared to \$221,332 for the comparative year. The current year also recorded a loss on impairment of available-for-sale investments of \$172,500 but this was more than offset by a gain on the sale of available-for-sale investments of \$178,474 quarter relating to the sale of common shares that the Company held in Cordoba Minerals Corp. ("Cordoba"). As well, the Company recorded a future income tax recovery of \$60,000 during the current year relating to the fulfillment of its \$300,000 flow-through expenditure commitment before December 31, 2013. The comparative year recorded a loss on impairment of available-for-sale investments of \$318,750.

Exploration expenditures in the current year totalled \$498,862 compared to \$833,202 in the comparative year, a decrease of \$334,340. Exploration expenditures were less during the current year than in the comparative year as the Company's property interests had been reduced and therefore its exploration programs were on a smaller scale.

General and administrative expenses for the year ended December 31, 2013 totalled \$311,925 compared to \$483,118 for the year ended December 31, 2012, a decrease of \$171,193. This decrease was due primarily to a share-based payment expense of \$137,951 recorded in the comparative year whereas there was no such charge for the current year. Notable cost decreases for the current year were \$31,125 in salaries and benefits and \$10,154 in legal and audit

fees. Notable cost increases were \$10,500 in management fees and \$7,871 in office and administrative. As was the case for the quarterly comparison, current year general and administrative costs were generally lower due to an overall decrease in business activity and the implementation of cost cutting initiatives. The higher office and administrative costs are primarily due to the addition of directors and officers insurance which took effect in the middle of the comparative year. Management fees were higher in comparison because they did not start until after the first quarter in the comparative year.

### **Mineral Property Expenditures**

During the year ended December 31, 2013, the Company incurred exploration costs in the Yukon totalling \$498,862 with the majority of the costs being \$321,745 on the King Solomon's Dome property and \$139,141 on the Face property.

The most significant overall exploration costs for the period were \$214,150 for drilling and \$144,305 for geological fees.

During the year ended December 31, 2013, the Company recorded a total write-down of exploration and evaluation asset cost of \$3,628,446. This included \$3,316,263 on the Sixty Mile property, \$201,267 on the Face property, \$90,406 on the Ten Mile Creek property, and \$20,510 on the Iola property. The carrying values of the Sixty Mile and Face properties were reduced to a nominal value. While these properties remain in good standing, the Company does not expect to perform any exploration programs on them for the foreseeable future. The Ten Mile and Iola properties were disposed of during the current year and as such, their carrying costs were completely written off.

### **Liquidity and Capital Resources**

The Company is in the exploration stage and therefore has no cash flow from operations. During the current year, the Company sold the 600,000 common shares it held in Cordoba for net proceeds of \$328,474. Prior to that, the principal sources of funds since incorporation have been \$1.0 million received upon completion of a spin-out transaction in 2011 whereby certain assets were distributed from Radius to the Company, and a private placement closed during 2012 which raised gross flow-through proceeds of \$300,000 and gross non-flow-through proceeds of \$849,000. The Company fulfilled its commitment to spend the \$300,000 in flow-through funds during the current year. While the Company does not have any further commitments, it does have an option agreement on the Rivier property whereby the next scheduled payments due to keep the option in good standing are payments of \$20,000 cash and \$50,000 in common shares due on or before July 18, 2014.

As at December 31, 2013, current assets were \$173,069 of which \$148,169 was cash and \$18,500 was the fair value of available-for-sale investments. Current liabilities were \$36,543, resulting in a working capital position of \$136,526. Existing funds continue to be used for exploration 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 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 year. As at December 31, 2013, 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 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 \$1,850 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 December 31, 2013, the Company had cash of

\$148,169 (2012: \$629,217) available to apply against short-term business requirements and current liabilities of \$36,543 (2012: \$73,734). 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 December 31, 2013 are carried at amortized cost, apart from the available-for-sale investment in a public company with shares in an active market of \$7,500 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-and-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's related parties with transactions during the years ended December 31, 2013 and 2012 consist of directors, officers and the following companies with common directors:

<b><u>Related party</u></b>	<b><u>Nature of transactions</u></b>
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 twelve month periods ended December 31, 2013 and 2012, the Company reimbursed Gold Group, a company controlled by the Chief Executive Officer of the Company, for the following costs:

	Three months ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
General and administrative expenses:				
Office and administration	\$ 22,975	\$ 22,247	\$ 88,309	\$ 48,475
Public relations	598	902	18,531	4,634
Salaries and benefits	12,581	26,700	78,710	61,528
Transfer agent and regulatory fees	44	1,736	2,609	1,836
Travel and accommodation	984	3,874	8,885	5,303
	<b>\$ 37,182</b>	<b>\$ 55,459</b>	<b>\$ 197,044</b>	<b>\$ 121,776</b>
Exploration expenditures	<b>\$ 169</b>	<b>\$ 2,918</b>	<b>\$ 14,116</b>	<b>\$ 47,296</b>

Effective July 1, 2012, 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.

During the three and twelve month periods ended December 31, 2013, the Company reimbursed Radius, a company with common directors and officers, for the following costs:

	Three months ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
General and administrative expenses:				
Office and administration	\$ 1,527	\$ 13,240	\$ 1,527	\$ 37,719
Public relations	-	-	-	9,428
Salaries and benefits	-	9	-	40,502
Transfer agent and regulatory fees	-	750	-	3,413
Travel and accommodation	-	-	-	4,052
	<b>\$ 1,527</b>	<b>\$ 13,999</b>	<b>\$ 1,527</b>	<b>\$ 95,114</b>
Exploration expenditures	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 54,932</b>

Radius was reimbursed by the Company for these shared costs and other business related expenses paid by Radius on behalf of the Company. Salaries and benefits costs included those for the Vice President Corporate Development, Chief Financial Officer, and Corporate Secretary. The cost-sharing arrangement with Radius terminated effective June 30, 2012.

Deposits include a total amount amount of \$61,000 (2012: \$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 December 31, 2013 consist of \$15,219 (2012: \$22,444) due to Gold Group for reimbursement of shared costs and \$1,527 (2012: \$17,539) 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 is 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 December 31,		Year ended December 31,	
	2013	2012	2013	2012
Management fees	\$ 10,500	\$ 10,500	\$ 42,000	\$ 31,500
Salaries and benefits	3,783	4,615	17,866	20,510
Share-based payments	-	-	-	47,029
	<b>\$ 14,283</b>	<b>\$ 15,115</b>	<b>\$ 59,866</b>	<b>\$ 99,039</b>

Total share-based payments to directors not specified as key management personnel during the year ended December 31, 2013 was \$Nil (2012: \$23,514).

### Other Data

Additional information related to the Company is available for viewing at [www.sedar.com](http://www.sedar.com).

### Share Position and Outstanding Warrants and Options

As at April 25, 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:

<b>WARRANTS</b>		
<b>No. of warrants</b>	<b>Exercise price</b>	<b>Expiry date</b>
7,171,875	\$0.10	October 10, 2014

  

<b>STOCK OPTIONS</b>		
<b>No. of options</b>	<b>Exercise price</b>	<b>Expiry date</b>
1,225,000	\$0.15	July 19, 2022

### Adoption of New and Amended IFRS Pronouncements

#### *IAS 1 Presentation of Financial Statements (Amendment)*

The amendments to IAS 1 require the grouping of items within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified. The statement of comprehensive loss in these financial statements has been amended to reflect the presentation requirements under the amended IAS 1.

The mandatory adoption of the following new and revised accounting standards and interpretations on January 1, 2013 had no significant impact on the Company's financial statements for the current or prior periods presented:

#### *IFRS 11 Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under previous IFRS, entities had the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers.

#### *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off-balance sheet vehicles. The standard carries forward existing disclosures and also

introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

#### *IFRS 13 Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under previous IFRS, guidance on measuring and disclosing fair value was dispersed among the specific standards requiring fair value measurements and in many cases did not reflect a clear measurement basis or consistent disclosures.

#### **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 *Financial Instruments* 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 at FVTPL, financial guarantees and certain other exceptions. In response to delays to the completion of the remaining phases of the project, the IASB issued amendments to IFRS 9 and has indefinitely postponed the adoption of this standard. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9.

#### *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 cash generating units ("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 Company has not early-adopted the revised standards and is currently assessing the impact that the standards 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.