KOOTENAY
SILVER INC.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended

December 31, 2013

and

December 31, 2012

(Expressed in Canadian dollars)

Management's Responsibility

To the Shareholders of Kootenay Silver Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of Kootenay Silver Inc. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of Kootenay Silver Inc.'s external auditors.

We draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial consolidated statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

April 24, 2014

"James McDonald"	*"Rajwant Kang"*
James McDonald	Rajwant Kang
Chief Executive Officer	**Chief Financial Officer**

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kootenay Silver Inc.:

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kootenay Silver Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012, and the results of their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of these consolidated financial statements, which states that Kootenay Silver Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of Kootenay Silver Inc. to continue as a going concern.

MNP LLP

April 24, 2014
Vancouver, British Columbia

Chartered Accountants

Index

CONSOLIDATED FINANCIAL STATEMENTS

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)
(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Exhibit 1

		December 31, 2013		December 31, 2012
ASSETS				
Current:				
Cash and cash equivalents	**$**	**2,804,423**	$	6,925,053
Other receivables and advances (Note 8)		**846,081**		601,922
Prepaid expenses		**332,344**		109,611
Marketable securities (Note 4)		**382,140**		892,333
Total current assets		**4,364,988**		8,528,919
Non-current assets:				
Equipment (Note 5)		**253,749**		196,064
Advances and deposits		**88,500**		88,500
Mineral properties (Note 6)		**33,717,768**		27,184,432
	$	**38,425,005**	$	35,997,915
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable and accrued liabilities (Note 11)	**$**	**536,435**	$	352,975
Total current liabilities		**536,435**		352,975
Equity:				
Share capital (Note 7)		**47,043,736**		42,991,181
Contributed surplus (Note 7)		**17,243,528**		15,108,951
Accumulated other comprehensive loss (Exhibit 4)		**(297,672)**		(1,192,817)
Deficit		**(26,101,022)**		(21,262,375)
Total Equity		**37,888,570**		35,644,940
Total liabilities and equity	**$**	**38,425,005**	$	35,997,915

Approved on Behalf of the Board:

"James McDonald"
Director

"Kenneth Berry"
Director

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)
(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF LOSS

Exhibit 2

		Year ended December 31, 2013		Year ended December 31, 2012
General and Administrative Expenses				
Depreciation (Note 5)	**$**	**56,929**	$	49,768
Office and general (Note 11)		**1,140,333**		1,060,018
Management fees (Note 11)		**359,000**		364,000
Bad debt expense		**4,775**		3,880
Share based payments (Note 7)		**1,436,764**		684,489
Professional fees		**469,640**		291,559
Regulatory and filing fees		**79,136**		55,298
Rent		**111,380**		86,873
Loss before Exploration and Other Items		**3,657,957**		2,595,885
Exploration Expenditures				
Mineral property investigation (Note 6)		**253,803**		85,230
Impairment of mineral property (Note 6)		**944,199**		658,229
		1,198,002		743,459
Other Items				
Gain on sale of mineral property options		**-**		(192,973)
Administration income (Note 11)		**(4,711)**		(23,040)
Loss on sale of marketable securities		**413,615**		-
Foreign exchange gain		**(334,856)**		(525,992)
Finance income		**(91,360)**		(15,940)
		(17,312)		(757,945)
Loss for the year		**4,838,647**		2,581,399
Basic and Diluted Loss per Share (Note 7)	**$**	**(0.080)**	$	(0.053)
Weighted Average Number of Shares Outstanding		**60,805,535**		49,385,203

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)
(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Exhibit 3

	Year ended December 31, 2013	Year ended December 31, 2012
Loss for the year	**$ 4,838,647**	$ 2,851,399
Other comprehensive loss		
Unrealized loss on available-for-sale financial assets arising during the year	**149,123**	238,522
Foreign currency translation differences of foreign operations	**(1,044,268)**	811,816
Total other comprehensive (income)/loss	**(895,145)**	1,050,338
Comprehensive loss	**$ 3,943,502**	$ 3,631,737

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)
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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Exhibit 4

	Number of Shares		Capital Stock		Contributed Surplus		Accumulated Other Comprehensive Income (Loss)		Deficit		Total Equity
Balance, December 31, 2011	45,415,100	$	29,286,753	$	16,898,805	$	(142,479)	$	(18,680,976)	$	27,362,103
Shares issued, net of issuance costs	7,860,000		5,901,996		1,689,476						7,591,472
Share based payment	-		-		684,489		-		-		684,489
Exercise of stock options	278,750		442,917		(198,729)		-		-		244,188
Acquisition of mineral properties	70,000		69,300		-		-		-		69,300
Warrant exercise incentive program	-		(541,398)		541,398		-		-		-
Exercise of warrants	2,865,000		7,831,613		(4,506,488)		-		-		3,325,125
Unrealized loss on available-for-sale financial assets arising during the year	-		-		-		(238,522)		-		(238,522)
Foreign currency translation differences of foreign operations	-		-		-		(811,816)		-		(811,816)
Loss for the year	-		-		-		-		(2,581,399)		(2,581,399)
Balance, December 31, 2012	56,488,850	$	42,991,181	$	15,108,951	$	(1,192,817)	$	(21,262,375)	$	35,644,940
Shares issued, net of issuance costs	6,250,000		4,000,055		697,813		-		-		4,697,868
Share based payment	-		-		1,436,764		-		-		1,436,764
Acquisition of mineral properties	70,000		52,500		-		-		-		52,500
Unrealized loss on available-for-sale financial assets arising during the year	-		-		-		(149,123)		-		(149,123)
Foreign currency translation differences of foreign operations	-		-		-		1,044,268		-		1,044,268
Loss for the year	-		-		-		-		(4,838,647)		(4,838,647)
Balance, December 31, 2013	62,808,850	$	47,043,736	$	17,243,528	$	(297,672)	$	(26,101,022)	$	37,888,570

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)
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CONSOLIDATED STATEMENTS OF CASH FLOWS

Exhibit 5

		Year ended December 31, 2013		Year ended December 31, 2012
Cash Flows from Operating Activities				
Net loss for the year	**$**	**(4,838,647)**	$	(2,581,399)
Add items not involving any outlay of cash:				
Share based payment		**1,436,764**		684,489
Impairment of mineral properties		**944,199**		658,229
Loss from the sale of marketable securities		**413,615**		-
Depreciation		**56,929**		49,768
Bad debt expense		**4,775**		3,880
Gain on mineral property option payments		**-**		(180,068)
		(1,982,365)		(1,365,101)
Changes in non-cash working capital balances:				
Other receivable and advances		**(202,407)**		521,171
Prepaid expenses		**(215,207)**		3,965
Accounts payable and accrued liabilities		**(751)**		(410,899)
		(2,400,730)		(1,250,864)
Cash Flows from Financing Activities				
Issuance of share capital		**4,697,868**		11,160,785
Investor deposits		**-**		(2,438)
		4,697,868		11,158,347
Cash Flows from Investing Activities				
Investment in mineral properties		**(6,026,499)**		(3,899,706)
Investment in equipment		**(106,216)**		(61,676)
Reclamation deposits paid		**-**		(21,000)
Proceeds from the sale of marketable securities		**31,660**		-
		(6,101,055)		(3,982,382)
Effect of foreign exchange rate changes on cash		**(316,713)**		(478,031)
Increase (decrease) in Cash and Cash Equivalents during the year		**(4,120,630)**		5,447,070
Cash and Cash Equivalents, Beginning of the year		**6,925,053**		1,477,983
Cash and Cash Equivalents, End of the year	**$**	**2,804,423**	$	6,925,053

Supplemental Disclosure of Cash and Non-Cash Activities (Note 10)

- see accompanying notes -

((Expressed in Canadian dollars)

1 Reporting Entity:

Kootenay Silver Inc. (the "Company") is a Canadian exploration stage company incorporated under the *Business Corporations Act* (British Columbia). The address of the Company's registered office is 1820 – 1055 West Hastings St. Vancouver, British Columbia, Canada.

The Company is focused on acquiring and exploring mineral properties principally located in North America, with the objective of identifying mineralized deposits economically worthy of subsequent development, mining or sale.

Going Concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. There are conditions and events, which constitute material uncertainties that may cast significant doubt on the validity of this assumption.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. During the year ended December 31, 2013, the Company raised $4,750,000 from the closing of a private placement that was fully subscribed by Agnico-Eagle Mines Limited. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

During the years ended December 31, 2013 and 2012, the Company experienced operating losses and negative operating cash flows; operations of the Company having been primarily funded by the issuance of share capital. The Company expects to incur further losses in the development of its business. Management has estimated that the Company has sufficient financing to complete current work plans; however, future development will require additional financing in order to complete all planned exploration and other programs during the year ending December 31, 2014 and thereafter. If funds are unavailable on terms satisfactory to the Company, some or all planned activities may be cancelled or postponed.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of resource property expenditures is dependent upon several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties. The Company will need access to capital to continue advancing its primary project, Promontorio, as well as its other property interests.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments to the carrying values of assets and liabilities would be necessary.

	December 31, 2013	December 31, 2012
Deficit	**$ 26,101,022**	$ 21,262,375
Working capital	**$ 3,828,553**	$ 8,175,944

2 Basis of Presentation:

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements.

The policies applied in these consolidated financial statements are presented in Note 3 and were consistently applied to all the years presented unless otherwise noted. These policies are based on IFRS issued and outstanding as of April 25, 2014, the date the Board of Directors approved the consolidated financial statements.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. Under IFRS, the Canadian dollar is the functional currency of the parent and Kootenay Resources Inc. The functional currency of Minera JM S.A. de C.V. and Kootenay Gold (US) Corp. is the US dollar and Servicios de Exploraciones Sonora, S.A. de C.V. is the Mexican Peso.

Assets and liabilities of the subsidiaries with a functional currency in US dollars and Mexican pesos are translated at the year-end exchange rates, and the results of its operations are translated at average exchange rates for the year. The resulting translation adjustments are recorded in accumulated other comprehensive loss in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive loss.

3 Significant Accounting Policies

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

The significant accounting policies adopted by the Company are as follows:

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial instruments which are measured at fair value through other comprehensive loss and share based payments which are measured at fair value through profit or loss.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kootenay Resources Inc. (formerly Kootenay Gold Corp) (a company incorporated in Canada), Minera JM S.A. de C.V. (a company incorporated in Mexico), Servicios de Exploraciones Sonora, S.A. de C.V. (a company incorporated in Mexico) and Kootenay Gold (US) Corp. (a company incorporated in US).

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated in full upon consolidation.

3 Significant Accounting Policies *(continued):*

Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and revenues and expenses for the year. By their nature, these estimates and judgments are subject to uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant. Actual results may differ from those estimates and judgements.

Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to:

(i) asset carrying values and impairment charges;
(ii) the economic recoverability of exploration expenditures incurred and the probability of future economic benefits from development expenditures incurred;
(iii) the expected costs of decommissioning liabilities; and,
(iv) the calculation of share-based compensation and warrants which include the assumptions used in the Black-Scholes option pricing model including volatility, estimated forfeiture rates and expected time until exercise.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are as follows:

(i) Equipment

The Company estimates the useful lives of equipment based on the period over which the assets are expected to be available for use. The depreciation method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by the Company. The amounts and timing of recorded expenses for any year would be affected by changes in assumptions and estimates used.

(ii) Exploration and evaluation assets

The Company makes certain estimates and assumptions regarding the recoverability of the carrying values of exploration and evaluation assets. These assumptions are changed when conditions exist that indicate the carrying value may be impaired, at which time an impairment loss is recorded.

(iii) Decommissioning liabilities

The Company recognizes the liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the exploration or development of its properties. The Company assesses its provision for site reclamation at each reporting date. Significant estimates and assumptions are made in determining the provision for site reclamation, as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future reclamation costs required.

3 Significant Accounting Policies *(continued)***:**

(iv) Share based payments

The Company has an equity-settled share-based scheme for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in Note 7 and include, among others, expected volatility, expected life of the options and number of options expected to vest. Where vesting conditions exist for share options, the Board reviews progress against those vesting conditions annually and reviews the estimated date of the financial close of project, which will impact the consolidated financial statements. In the event that milestone conditions are not met, it is anticipated that certain options will lapse.

(v) Taxes

Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax planning strategies.

Significant judgments used in the preparation of these consolidated financial statements include, but are not limited to:

(i) those relating to the assessment of the Company's ability to continue as a going concern;
(ii) the determination of functional currency. The functional currency of the parent is the Canadian dollar and the functional currency of the wholly owned subsidiaries, Minera JM S.A. de C.V. and Servicios de Exploraciones Sonora, S.A. de C.V. are US dollars and Mexican Peso respectively.

Foreign currency transactions

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statements of loss.

Cash and cash equivalents

Cash is comprised of cash on hand. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Mineral property interests

Mineral properties corresponded to acquired interests in mining exploration permits/claims, which include the right to explore, mine, extract and sell all minerals from such claims.

All pre-exploration costs, i.e. costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on an area of interest, are expensed as incurred. Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized in respect of each identifiable area of interest until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are carried at historical cost, less any impairment losses recognized.

3 Significant Accounting Policies *(continued)***:**

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable for an area of interest, the Company stops capitalizing exploration and evaluation costs for that area, tests recognized exploration and evaluation assets for impairment and reclassifies any unimpaired exploration and evaluation assets either as tangible or intangible mine development costs according to the nature of the assets.

The amounts shown for mineral properties do not necessarily represent present or future values. The recoverability of mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permits necessary to complete the development and future profitable production, or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title that are not in the public domain or the title registry office and/or may be affected by undetected defects.

Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate. Depreciation is recognized using the declining balance method at the following annual rates:

Office furniture	20%
Computer equipment	30%
Vehicles	30%

For leasehold improvements, the Company recognized depreciation using the straight-line method over 5 years. For the year of acquisition, the rate is one-half of the above. The Company reviews the carrying values of its property and equipment for impairment at each reporting period. If the carrying value exceeds the amount recoverable, a write-down to their fair value is charged to the consolidated statements of loss.

Decommissioning liabilities

The Company recognizes the present value of estimated costs of legal and constructive obligations for decommissioning liabilities in the year in which it is incurred or when there is a legal or constructive obligation. The fair value of asset retirement obligation is recorded as a liability and a corresponding increase in mineral properties. Changes in the liability for decommissioning liabilities due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of loss. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. Actual costs incurred upon settlement are charged against the decommissioning liabilities. Any difference between the actual costs and the recorded liability is recognized as a gain or loss in earnings in the year in which the settlement occurs. At present, estimated future site restoration costs for the Company's mineral property interests are considered minimal.

Marketable securities

Marketable securities are recorded at market value by reference to published price quotations in an active market, and are written down when the value is impaired on other-than-temporary basis, or when no other means exist to independently confirm the recorded value is reasonable. Realized gains or losses on the sale of securities are determined based on specific cost basis. Unrealized gains or losses for available-for-sale securities are recorded at market value and included in other comprehensive income (loss) on a quarterly basis.

3 Significant Accounting Policies *(continued)***:**

Impairment

i) Financial assets

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

ii) Non-financial assets

The carrying amounts of mineral properties are assessed for impairment only when indicators of impairment exist, typically when one of the following circumstances applies:

- Exploration rights have / will expire in the near future;
- No future substantive exploration expenditures are budgeted;
- No commercially viable quantities discovered and exploration and evaluation activities will be discontinued; or
- Exploration and evaluation assets are unlikely to be fully recovered from successful development or sale.

If any such indication exists, then the assets' recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The level identified by the group for the purposes of testing exploration and evaluation assets for impairment corresponds to each mining property.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Share capital

Common shares are classified as equity. The Company records proceeds from share issuances net of share issuance costs. Share capital issued for non-monetary consideration is recorded at the fair market value of the shares on the date the shares are issued.

3 Significant Accounting Policies *(continued)*:

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to the common shareholders of the Company divided by the weighted average number of common shares outstanding during the year. The diluted earnings per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of the dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the year.

The calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Flow-through shares

Canadian income tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow through shares whereby the premium paid for the flow through shares in excess of the market value of the shares without flow through features at the time of issue is credited to other liabilities and included in income, net of the income tax impact at the same time the qualifying expenditures are made.

Warrants

Warrants are classified as equity as they are derivatives over the Company's own equity that will be settled only by the Company exchanging a fixed amount of cash for a fixed number of the Company's own equity instruments.

When shares and warrants are issued at the same time, the proceeds are allocated first to warrants issued, according to their fair value using the Black-Scholes pricing model, the residual value being allocated to shares.

Share-based payments

The grant date fair value of share-based payment awards granted to employees and directors is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period during which the employees and directors unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

3 Significant Accounting Policies *(continued)***:**

Financial instruments

All financial instruments are recognised, initially, at fair value. The Company classifies financial instruments as available-for-sale, fair value through profit or loss, loans and receivables, and other liabilities. Financial assets, loans and receivables and financial liabilities other than those designated as fair value through profit or loss, are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income, unless an unrealized loss is considered to be other than temporary in which case the loss is recorded on the consolidated statements of loss for the year. Instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized on the consolidated statements of loss.

Transaction costs on financial assets and liabilities classified other than fair value through profit or loss are treated as part of the investment cost.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after 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. The Company has classified its financial assets and liabilities as follows:

Fair value through profit or loss	Loans and receivables	Available-for-sale	Other liabilities
Cash and cash equivalents	Other receivable and advances Exploration advances Reclamation Deposits	Marketable securities	Accounts payable and accrued liabilities

Comprehensive income/loss

Other comprehensive income represents the change in net equity for the year that arises from unrealized gains and losses on available-for-sale financial instruments, and foreign currency translation adjustments on foreign subsidiaries. Amounts included in other comprehensive income are shown net of tax. Cumulative changes in other comprehensive income are included in accumulated other comprehensive loss which is presented as a separate category in shareholders' equity.

Finance income and finance costs

Interests received and interests paid are classified under operating activities in the consolidated statements of cash flows.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated statements of comprehensive loss.

3 Significant Accounting Policies *(continued)***:**

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the (consolidated) statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Results of all operating segments' are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company manages its business on the basis of one reportable segment under two geographic regions, being Canada and Mexico.

Risk management

The Company's activities expose it to a variety of financial risks: market risk (foreign exchange risk), credit risk and liquidity risk. The Company's risk management program focuses on ensuring liquidity is available to the Company in to order to fund its exploration efforts. Risk management is the responsibility of the Company's management who identifies and evaluates financial risks.

3 Significant Accounting Policies *(continued)***:**

Adoption of new accounting standards

The following new standards, interpretations and amendments were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC"), and are effective for annual periods beginning on or after January 1, 2013. The following standards were applied for periods beginning on or after January 1, 2013 and had no material impact on the Company's consolidated financial statements:

IAS 1, *Presentation of Financial Statements* ("IAS 1"), requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they might at some point be reclassified from OCI to profit or loss at a later date when specified conditions are met. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer. This amendment was effective for annual periods beginning on or after July 1, 2012 and required full retrospective application. The Company adopted IAS 1 in its consolidated financial statements for the annual period beginning January 1, 2013.

IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"), requires more extensive disclosure to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") replaced existing guidance on consolidation in IAS 27 *Consolidated and Separate Financial Statements*, and SIC 12 *Consolidation – Special Purpose Entities*. The portion of IAS 27 that deals with separate financial statements will remain. IFRS 10 changes the definition of control, such that the same consolidation criteria will apply to all entities. The revised definition focuses on the need to have both "power" and "variable returns" for control to be present. Power is the current ability to direct the activities that significantly influence returns. Variable returns can be positive, negative or both. IFRS 10 requires continuous assessment of control of an investee in line with any changes in facts and circumstances.

IFRS 11, *Joint Arrangements* ("IFRS 11") replaced IAS 31 *Interests in Joint Ventures*, and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 defines a joint arrangement as an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control. The focus is not solely on the legal structure of joint arrangements, but rather on how the rights and obligations are shared by the parties to the joint arrangement. IFRS 11 eliminates the existing policy choice of proportionate consolidation for jointly controlled entities. In addition, the Standard categorizes joint arrangements as either joint operations or joint ventures.

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") is the new Standard for disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Matters covered include information about the significant judgments and assumptions that any entity has made in determining whether it has control, joint control or significant influence over another entity.

IFRS 13, *Fair Value Measurement* ("IFRS 13") was issued to remedy the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurement in various current IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

IAS 27, *Separate Financial Statements* ("IAS 27") has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The objective is to set standards to be applied in accounting for investments in subsidiary, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. The amended IAS 27 excludes the guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent currently within the scope of the current IAS 27 Consolidated and Separate Financial Statements that is replaced by IFRS 10.

3 Significant Accounting Policies *(continued)***:**

IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28") has been revised and is applied by all entities that are investors with joint control of, or significant influence over, an investee. IAS 28 *Investments in Associates* has been superseded by IAS 28 *Investments in Associates and Joint Venturers*.

Future accounting policy changes issued but not yet in effect

The following amendments to existing standards were issued by the IASB and are effective for annual periods beginning on or after January 1, 2014. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from below:

IFRS 2, *Share-based Payment* ("IFRS 2"): Amended to clarify the definition of a vesting condition and separately define performance and service conditions. The amendment is effective for share-based payment transactions for which the grant date is on or after July 1, 2014. The adoption of the amendment is not expected to have significant impact to the Company.

IFRS 3, *Business Combinations* ("IFRS 3"): Amended to clarify that an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as a financial liability or as equity on the basis of the definitions in IAS 32. Non-equity consideration is measured at fair value at each reporting date, with changes recognized in the results of operations. As well, the amendment clarifies that IFRS 3 does not apply to the formation of any joint arrangement and that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment is effective for business combinations for which the acquisition date is on or after July 1, 2014. The Company is currently evaluating the impact of the standard.

IFRS 13, *Fair Value Measurement* ("IFRS 13"): Amended to clarify that the portfolio exception in IFRS 13, which allows fair value measurement of a group of financial assets and liabilities on a net basis, applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32. The amendment is effective for annual periods beginning on or after July 1, 2014. The Company is currently evaluating the impact of the standard.

IFRIC 21, *Levies* ("IFRIC 21"): Amended to provide guidance for the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The amendment is effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact that the following new accounting amendment will have on the consolidated financial statements.

IAS 24, *Related Party Disclosures* ("IAS 24"): Amended to include as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity. The amendment is effective for annual periods beginning on or after July 1, 2014. The adoption of the amendment is not expected to have significant impact to the Company.

IAS 32, *Financial Instruments: Presentation* ("IAS 32"): Amended to provide further clarity around details relating to the right to offset and the application of offsetting under certain circumstances. The amendment is effective for annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact that the following new accounting amendment will have on consolidated financial statements.

(Expressed in Canadian dollars)

3 Significant Accounting Policies *(continued)*:

The IASB intends to replace IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9, *Financial Instruments* ("IFRS 9") and to reduce the complexity in the classification and measurement of financial instruments. The completed version of IFRS 9 will include classification and measurement, impairment and hedge accounting requirements and the IASB has tentatively decided that the mandatory effective date of this new standard will be for annual periods beginning on or after January 1, 2018. The Company is currently monitoring the phases of this IASB project with a view to evaluating the impact of the standard when it is issued in its final form, which is expected in calendar 2014.

4 Marketable Securities:

Marketable securities are classified as available for sale financial instruments, which are adjusted to market value at the end of the reporting period. Market value as at December 31, 2013 is $382,140 (2012 – $892,333). The Company recorded an unrealized loss of $149,123 (2012 – unrealized loss of $238,522) in comprehensive loss for fair value adjustments to marketable securities.

5 Equipment:

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Total
Cost					
Balance December 31, 2011	**166,837**	**58,374**	**133,923**	**-**	**359,134**
Additions	56,163	-	5,365	2,828	64,356
Balance December 31, 2012	**223,000**	**58,374**	**139,288**	**2,828**	**423,490**
Additions	-	8,111	49,010	57,493	114,614
Balance December 31, 2013	**223,000**	**66,485**	**188,298**	**60,321**	**538,104**
Accumulated Depreciation					
Balance December 31, 2011	**98,421**	**23,112**	**56,125**	**-**	**177,658**
Depreciation for year	28,608	6,971	13,906	283	49,768
Balance December 31, 2012	**127,029**	**30,083**	**70,031**	**283**	**227,426**
Depreciation for year	27,434	5,578	18,546	5,371	56,929
Balance December 31, 2013	**154,463**	**35,661**	**88,577**	**5,654**	**284,355**
Carrying Value December 31, 2012	95,971	28,291	69,257	2,545	196,064
Carrying Value December 31, 2013	**68,537**	**30,824**	**99,721**	**54,667**	**253,749**

(Expressed in Canadian dollars)

6 Mineral Properties:

	Canada Total	Promontorio	Santa Lucia	Sonora Anomalies	Espiritu	Cervantes	Other	Mexico Total	2013 Total	2012 Total
	$	$	$	$	$	$	$	$	$	$
Acquisition Costs										
Balance, beginning	1,192,165	3,537,658	103,974	507,279	-	-	101,412	4,250,323	5,442,488	5,318,188
Incurred	112,500	-	-	-	-	-	-	-	112,500	124,300
Balance, ending	1,304,665	3,537,658	103,974	507,279	-	-	101,412	4,250,323	5,554,988	5,442,488
Exploration Expenditures										
Balance, beginning	6,037,465	18,392,589	1,021,843	3,237,728	1,059,224	78,301	546,568	24,336,253	30,373,718	26,763,711
Assaying and Lab	54,249	514,776	-	-	-	4,072	1,788	520,636	574,885	400,244
Camp Costs	0	737,625	-	849	524	727	-	739,725	739,725	406,703
Drafting	37,390	169,478	-	1,189	66	3,405	626	174,764	212,154	256,363
Drilling	16,964	4,243,472	-	-	-	-	-	4,243,472	4,260,436	1,262,184
Geological mapping	43,165	141,665	-	148	-	22,057	-	163,870	207,035	169,583
Geophysics	100,493	28,349	-	-	-	-	-	28,349	128,842	19,296
Maintenance	32,854	413,381	20,466	153,716	79,312	8,301	36,423	711,599	744,453	388,321
Miscellaneous	7,300	56,959	-	13,732	-	-	17	70,708	78,008	80,109
Prospecting	163,676	245,084	1,119	22,163	482	10,911	3,606	283,365	447,041	431,507
Rock Sampling	4,476	54,000	18,000	-	-	-	-	72,000	76,476	76,936
Metallurgical testing	-	30,578	-	-	-	-	-	30,578	30,578	118,761
Incurred	460,567	6,635,367	39,585	191,797	80,384	49,473	42,460	7,039,066	7,499,633	3,610,007
Balance, ending	6,498,032	25,027,956	1,061,428	3,429,525	1,139,608	127,774	589,028	31,375,319	37,873,351	30,373,718
Total property balance	7,802,697	28,565,614	1,165,402	3,936,804	1,139,608	127,774	690,440	35,625,642	43,428,339	35,816,206
Recovery of costs	(2,605,649)	-	(1,050,103)	(1,158,598)	(1,080,445)	-	(177,138)	(3,466,284)	(6,071,933)	(6,029,316)
Option payment received	(84,000)	-	(2,000)	-	-	-	-	(2,000)	(86,000)	(2,000)
Abandoned (disposed)	(3,176,234)	-	-	(269,010)	-	-	(107,394)	(376,404)	(3,552,638)	(2,600,458)
Cumulative mineral property costs	1,936,814	28,565,614	112,804	2,509,691	59,163	127,774	405,908	31,780,954	33,717,768	27,184,432

(Expressed in Canadian dollars)

6 Mineral Properties (Canada):

	Copley	Kimberley Gold Trend	Jumping Josephine	Nechako Region	Rosetta*	Silver Fox	Other	2013 Total	2012 Total
	$	$	$	$	$	$	$	$	$
Acquisition Costs									
Balance, beginning	57,403	-	107,275	139,695	108,028	32,500	747,264	1,192,165	1,067,865
Incurred	33,750	-	-	78,750	-	-	-	112,500	124,300
Balance, ending	91,153	-	107,275	218,445	108,028	32,500	747,264	1,304,665	1,192,165
Exploration Expenditures									
Balance, beginning	451,505	183,151	860,434	393,598	659,412	320,467	3,168,898	6,037,465	5,571,786
Assaying and Lab	8,984	7,666	-	17,206	-	5,670	14,723	54,249	64,676
Camp Costs	-	-	-	-	-	-	-	-	-
Drafting	550	4,450	-	10,600	-	12,950	8,840	37,390	53,396
Drilling	11,816	-	5,148	-	-	-	-	16,964	75,904
Geological mapping	434	491	-	2,922	-	18,834	20,484	43,165	58,442
Geophysics	6,851	23,637	-	31,044	-	38,961	-	100,493	5,200
Maintenance	4,736	975	115	8,806	493	6,547	11,182	32,854	43,912
Miscellaneous	500	350	-	2,400	-	1,050	3,000	7,300	13,421
Prospecting	19,671	13,600	-	58,955	-	36,550	34,900	163,676	147,478
Rock Sampling	-	-	-	4,476	-	-	-	4,476	3,250
Incurred	53,542	51,169	5,263	136,409	493	120,562	93,129	460,567	465,679
Balance, ending	505,047	234,320	865,697	530,007	659,905	441,029	3,262,027	6,498,032	6,037,465
Total property balance	596,200	234,320	972,972	748,452	767,933	473,529	4,009,291	7,802,697	7,229,630
Recovery of costs	(508,908)	(112,000)	(490,950)	-	(388,031)	-	(1,105,760)	(2,605,649)	(2,605,156)
Option payment received	-	-	-	-	(84,000)	-	-	(84,000)	-
Abandoned (disposed)	-	-	(252,022)	(348,024)	-	-	(2,576,188)	(3,176,234)	(2,580,692)
Cumulative mineral property costs	87,292	122,320	230,000	400,428	295,902	473,529	327,343	1,936,814	2,043,782

*Earn-in option agreement

6 Mineral Properties *(continued)***:**

Promontorio - Sonora State, Mexico

The Company entered into an agreement on October 20, 2006 with Siete Campanas de Plata, S.A de C.V. (“Siete”), Exploration Canada De Oro, SA de CV (“ECO”) and the Mexican Government Agency (“FIFOMI”) to acquire an unencumbered 100% registered and beneficial interest in the Promontorio Concession, which includes the former producing Promontorio Mine Site. The Promontorio claims cover approximately 79,000 hectares, and are located in the historic silver and gold producing Sierra Madre Region of Northwest Mexico.

Under the terms of the agreement the Company is to pay ECO and Siete up to US$1,375,000 in cash of which US$1,165,000 has been paid with the remainder due on the earlier of the date of completion of a bankable feasibility study or commencement of production, issue 850,000 shares which has been fulfilled with a value of $1,289,000. Additionally, the Company has fulfilled the debt owing to FIFOMI in connection with the Promontorio Concession totalling 4,218,935 pesos ($400,000 U.S.) plus interest over a five- year period.

There is a 1 per-cent net smelter royalty on the core claims of Promontorio of which the Company can purchase ½ per-cent for $500,000 U.S. and has a first right of refusal to purchase the remaining ½ per-cent. Additionally, a 2 per-cent net smelter royalty relating to the acquisition on the surrounding claims including the core claims exists. The Company may upon commencement of commercial production or sooner purchase 50 per cent of the net smelter return for $1,000,000 U.S. in order to reduce the total net smelter return to 1 per cent. The Company also has the right of first refusal on the remaining 1 per cent in the event that ECO decides to sell it.

Santa Lucia - Southern Sonora State, Mexico

On May 1, 2006, amended September 27, 2006, the Company entered into an agreement and acquired 100% interest in two mineral claims comprised of 9,350 hectares. Pursuant to a grubstaking agreement dated June 15, 2005, the Company issued 100,000 shares valued at $94,000. In addition, there is a 2.5 per-cent net smelter return relating to the acquisition and a 2 per cent net smelter royalty on the core claim, comprised of 20 hectares. The Company may upon commencement of commercial production or sooner purchase from the holders 50 per-cent of the net smelter return for US$1,000,000. The Company also has the right of first refusal on the remaining 1.25 per-cent of the greater claim and 1 per-cent of the core claim in the event that the Holders decide to sell them.

On October 25, 2010, the Company entered into a Letter Agreement, whereby Copper Creek Gold ("CCG") was granted the right to earn 60% interest in the Santa Lucia Property. To fulfil its obligations and earn its interest, CCG must pay $60,000 in cash with $15,000 due on approval of the Agreement; issue an aggregate of 800,000 common shares and fund $2,000,000 of exploration expenditures on the Property within a four year period. The Company has received 600,000 common shares from CCG. CCG completed a share consolidation on the basis of ten (10) pre-Consolidation common shares for one (1) post-Consolidation common share, which is effective March 4, 2013. During the year ended December 31, 2013, the Company received notice of termination from Copper Creek Gold.

6 Mineral Properties *(continued)***:**

Sonora Concessions - Northwest Mexico

On February 17, 2011, the Company announced they had entered into an Option Agreement, whereby First Mexican Gold Corp. ("FMG") and International Millennium Mining were granted the right to earn an undivided 60% interest in four properties, under the name La Cabana. To fulfil its obligations and earn its interest FMG must issue an aggregate 1,200,000 common shares, of which the Company has received 250,000 and fund a US$2,000,000 of exploration expenditures on the Property within a five year period. Additionally, the Company retains a 1% NSR interest in the properties. During the year ended December 31, 2012, the Company received notice of termination from First Mexican Gold Corp. Unless specifically stated otherwise, all Sonora Concessions have been staked by the Company directly.

On February 28, 2011, the Company announced they had entered into an Option Agreement, whereby Pinecrest Resources Ltd. ("Pinecrest") was granted the right to earn an undivided 50% interest in the Espiritu Property. To fulfil its obligations and earn its interest Pinecrest must issue an aggregate 750,000 common shares over 3 years and fund a US$1,000,000 of exploration expenditures on the Property within a four year period. The Company has received 400,000 common shares from Pinecrest, being the initial and first anniversary share payments. During the year ended December 31, 2013, the Company received notice of termination from Pinecrest.

Jumping Josephine Property - Nelson Mining Division, British Columbia, Canada

The Company acquired by agreement dated March 20, 2003, 100% interest in Jumping Josephine ("JJ") by issuing 100,000 shares, valued at $36,750 and by incurring $40,000 in exploration expenditures. The Company purchased an additional seven contiguous mineral claims in the JJ by issuing 15,000 shares valued at $9,225 and paying $43,800 to the vendor.

On April 11, 2006, Astral Mining Corporation ("Astral") was granted the right to earn up to 60% undivided interesting in the JJ by spending $2,100,000 in exploration expenditures and issuing to the Company 400,000 common shares. The Company is now carrying a 40% interest with Astral having earned its 60%.

In November 2010, the Company received notice of termination related to the December 12, 2009 Option Agreement, whereby Astral had the right to increase their interest in the Jumping Josephine Property to 100% from their then current interest of 60%. The Company received 1,500,000 Astral shares as part of the December 2009 agreement before termination.

On February 12, 2013, Astral was acquired by Orex Minerals Inc. ("Orex") under a plan of arrangement. Orex issued 0.0834 of an Orex common share for each issued and outstanding common shares of Astral. The joint venture survives this arrangement and is now between Orex and the Company. Subsequent to December 31, 2013, the Company disposed of its remaining 40% interest in the Jumping Josephine Property to Orex in exchange for 1,000,000 common shares of Orex with a fair market value of $230,000. The Company recorded an impairment totalling $252,022 on its carrying value of the Jumping Josephine Property as at December 31, 2013.

6 Mineral Properties *(continued)***:**

Copley Property – Nechako Plateau, British Columbia

On February 23 2010, the Company entered into an option agreement whereby it was granted the right to earn a 100% undivided interest in 10 mineral tenures totaling approximately 2,927 hectares collectively named as the Copley Property. Under the agreement the Company must make total cash payments of $80,000; issue an aggregate total of 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. The Company has issued 60,000 shares with a fair value of $54,100 and paid $40,000 under the option agreement. The Copley Property was previously optioned to Northern Vertex Mining Corp. ("Northern") during which it spent $475,392 and issued the Company 400,000 shares of Northern.

Other Properties – Southern British Columbia

On December 27, 2006, the Company exercised its right under a Grubstake Agreement granting the Company the option to purchase a 100% interest in five mineral claims of which four are located on the Rossland-Republic trend namely Sunrise, Midas, Chenier and Murphy and one in the Sullivan District, Alisa Lake.

The Company issued 100,000 shares per property for an aggregate share issuance of 500,000 shares valued at $502,500, of which 100,000 shares valued at $65,000 were issued during the year ended December 31, 2009 and incurred $40,000 on each property. A bonus payment of 200,000 common shares is payable upon commencement of Commercial Production on any given property. The Company has the right to terminate the property agreements at anytime. During the year ended December 31, 2012, the Company impaired Midas Property and recorded $207,763 for impairment loss. Prior to, or during the year ended December 31, 2011, Sunrise, Chenier and Murphy and Alisa Lake were impaired.

Under the terms of the Kennedy Grubstake Agreement dated March 20, 2003, on July 2, 2008, Kootenay Silver Inc. optioned three additional properties located in the West Kootenay region namely, Deer Creek, Rosetta Creek and Monashee. Deer Creek covers 10,573 hectares in 24 claims, Monashee covers 11,459 hectares in 24 claims and Rosetta Creek covers 11,588 hectares in 26 claims.

Under the terms of the Grubstake Agreement 100,000 shares are issuable on each property and exploration expenditures of $40,000 must be incurred per each. The Company issued 250,000 shares valued at $273,750 relating to Rosetta Property. The Company abandoned Monashee without issuing the remaining 25,000 shares payment. If production is achieved on a specific property a bonus of 200,000 shares would be paid.

On November 24, 2008, the Company entered into an option agreement with Theia Resources Ltd. ("Theia"), whereby the Company granted the right to Theia to earn a 60% undivided interest in the Rosetta Creek Property. In order to exercise its option, Theia must issue 400,000 common shares to the Company with 100,000 issuable on the fifth day after the regulatory approval and the remaining shares issued in equal amounts on the anniversary of the agreement for the following three years. Upon commercial production, Theia will issue an additional 250,000 common shares to the Company. An aggregate of $1,000,000 in exploration expenditures must be expended by Theia on the mineral property within a five year period commencing April 27, 2009. The Company has received 400,000 common shares from Theia.

6 Mineral Properties *(continued)***:**

During the year ended December 31, 2011, the Company optioned under grubstake agreements three properties in the Nechako region, namely the Bird, Fox and Alco. Under the agreement the Company must on each property make total cash payments of $80,000; issue an aggregate total of 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. The Company has issued 40,000 shares per property with a fair value of $36,600, (aggregate total 120,000 shares with a fair value of $109,800), which includes 15,000 shares with a fair value of $11,250 (total $33,750) issued during the year. Cash payments of $35,000 have been paid under each of the option agreements totaling $105,000. Subsequent to December 31, 2013, the Company terminated the option agreements for the Alco and the Bird Properties, and recorded an impairment as at December 31, 2013 totaling $115,402 and $100,818 on its carrying values, respectively.

During the year ended December 31, 2013, the Company recorded an impairment of $252,022 for the Jumping Josephine Property, $115,402 for the Alco Property, $100,818 for the Bird Property, $109,877 for Nechako Various Property and $17,423 for Canadian Various Property.

Additional properties have been staked and are currently being evaluated to determine the viability of further exploration or development. This includes Silver Fox and the Ruby Steel Property, which also fall under the Kennedy Grubstake Agreement whereby a NSR was granted to the Kennedy Group eliminating the need for share issuance.

During the year ended December 31, 2013, the Company expensed $253,803 (2012 - $85,230) related to other property investigation expense. Once the Company has made its evaluations, the properties will be either be abandoned or acquired under the terms of the Grubstake Agreements.

Title to Mineral Property Interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

(Expressed in Canadian dollars)

7 Share Capital and Reserves:

Authorized:

The authorized share capital of the Company is an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. All issued shares, consisting of only common shares are fully paid.

Options and Warrants:

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, January 1, 2012	**9,103,500**	**$ 1.17**	**3,638,500**	**$ 1.10**
Granted	**5,831,600**	**1.33**	**2,120,000**	**1.05**
Expired	**(5,022,000)**	**1.18**	**(280,000)**	**0.91**
Exercised	**(2,865,000)**	**1.16**	**(278,750)**	**0.88**
Outstanding, December 31, 2012	**7,048,100**	**$ 1.30**	**5,199,750**	**$ 1.11**
Granted	**3,125,000**	**1.08**	**1,952,000**	**0.66**
Expired/Cancelled	**(1,221,500)**	**1.15**	**(1,065,000)**	**1.72**
Outstanding, December 31, 2013	**8,951,600**	**$ 1.24**	**6,086,750**	**$ 0.86**

Warrants

As at December 31, 2013, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
1,425,000	1.50	February 28, 2014
471,600	1.05	October 25, 2014
2,930,000	1.30	October 25, 2014
1,000,000	1.30	October 30, 2014
3,125,000	1.08	April 25, 2015
8,951,600		

The weighted average remaining life of the outstanding warrants is 0.89 years (2012 – 1.37 years).

The fair value of warrants is estimated using the Black Scholes option-pricing model. Warrants are included in contributed surplus until exercised, at which time they are transferred into share capital. Subsequent to December 31, 2013, unexercised warrants totalling 1,425,000 expired.

(Expressed in Canadian dollars)

7 Share Capital and Reserves *(continued)***:**

During the year ended December 31, 2013, the Company closed a $4,750,000 investment by Agnico-Eagle Mines Limited ("Agnico-Eagle") through a non-brokered private placement. A total of 6,250,000 units were issued. As a result of the transaction Agnico-Eagle owns 9.96% of the Company's issued and outstanding shares on a non-diluted basis. Each unit was priced at $0.76 per Unit and consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a purchase price of $1.08 per share expiring April 26, 2015. Subject to certain conditions, Agnico-Eagle will have the right to participate in any future equity offerings by the Company in order to maintain its pro rata investment in the Company. The Company paid share issuance costs of $52,132.

During the year ended December 31, 2012, the Company completed a brokered private placement (the "Offering") of 7,860,000 units at a price of $1.05 per unit consisting of one common share and one half of one common purchase warrant, for gross proceeds of $8,253,000. Each whole warrant entitles the holder to acquire one common share at a price of $1.30 per share. The Offering was completed in two tranches with the first tranche of warrants expiring October 25, 2014 and the second tranche expiring October 30, 2014. In connection with the Offering, the Agents received a cash commission of $495,180, equal to 6.0% of the gross proceeds raised under the Offering, and 471,600 compensation warrants (each a "Broker Warrant"), equal to 6.0% of the total number of units issued pursuant to the Offering. Each Broker Warrant is exercisable into one share at an exercise price of $1.05 per share until October 25, 2014 and fair value of $210,617 was determined. The Company paid share issuance costs of $166,348 in addition to cash commissions.

On February 29, 2012, the Company's board of directors approved the warrant exercise incentive program (the "Program") for certain existing holders. Each exercised warrant entitled the exercising holder to receive one common share in the capital of the Company and additional one half of a transferable share purchase warrant, with each whole warrant (the "Incentive Warrant") entitling the holder to purchase one additional common share expiring February 28, 2014 at a price of $1.50 per common share.

On February 29, 2012, 2,860,000 eligible warrants were exercised for net cash proceeds of $3,317,625. The Company issued 1,430,000 Incentive Warrants with a fair value of $541,398 and 2,860,000 common shares with a fair value of $2,776,227. Upon exercise, the Company reclassified $4,506,488 of fair value of the exercised warrants from contributed surplus to share capital.

The following assumptions were used for the Black-Scholes valuation of warrants issued or re-priced during 2013 and 2012:

	2013	2012
Risk-free interest rate	**0.94%**	1.07% - 1.10%
Expected life of warrants	**24 months**	24 months
Fair value per warrant issued	**$0.22**	$0.38-$0.45
Annualized volatility	**67%**	72% - 74%
Dividend rate	**0.00%**	0.00%

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company has used historical volatility in its share price to estimate expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimated.

(Expressed in Canadian dollars)

7 Share Capital and Reserves *(continued)***:**

Options

The Company has adopted an incentive stock option plan under the rules of the TSX Venture Exchange ("TSXV") pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option is equal to the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 10 years and generally vest 25% in specified increments. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding from time to time. Pursuant to the policies of the TSX Venture Exchange, shares issued on exercise of options are restricted from trading during the four month period subsequent to the date of grant.

During the year ended December 31, 2013, the Company granted a total of 1,952,000 share purchase options to officers, directors, employees and consultants. Each share purchase option is exercisable for a period of 5 years from grant date at an exercise price of $0.66. The share purchase options vest in increments from the grant date and will be fully vested in 18 months.

During the year ended December 31, 2012, the Company granted a total of 2,120,000 share purchase options to officers, directors, employees and consultants. Each share purchase option is exercisable for a period of 5 years from grant date at an exercise price of $1.05. The share purchase options vest in increments from the grant date and will be fully vested in 18 months.

Share based payments totalling $1,436,764 (2012 - $684,489) were expensed during the year ended December 31, 2013. As at December 31, 2013, 4,072,750 options (2012 – 3,559,750) with a weighted average exercise price of $0.90 per option (2012 - $1.13) were fully vested and exercisable. During the year ended December 31, 2013, 860,000 (2012 – 280,000) options expired and 205,000 (2012 – nil) options were forfeited.

As at December 31, 2013, the Company had outstanding stock options enabling holders to acquire common share of the Company as follows:

Number of Shares	Exercise Price	Expiry Date
944,750	0.65	June 24, 2014
120,000	0.77	November 14, 2015
750,000	1.00	March 23, 2016
200,000	1.20	December 11, 2016
2,120,000	1.05	November 26, 2017
1,952,000	0.66	September 18, 2018
6,086,750		

The weighted average remaining life of the options is 3.36 years (2012 – 3.10 years).

For stock options granted to employees, officers, directors and consultants, share based payment expense is measured at fair value and recognized over the vesting period from the date of grant. The fair value of stock options granted during the years ended December 31, 2013 and 2012 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2013	2012
Risk-free interest rate	**1.90%**	1.31%
Expected life of options	**5 years**	5 years
Fair value per option granted	**$0.52**	$0.70
Annualized volatility	**94.20%**	98.05%
Forfeiture rate	**0.00%**	0.00%
Dividend rate	**0.00%**	0.00%

(Expressed in Canadian dollars)

7 Share Capital and Reserves *(continued)*:

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company has used historical volatility in its share price to estimate expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimated.

Earnings per share

The calculation of basic loss per share for the year ended December 31, 2013 was based on the loss of $4,838,647 (2012 - $2,581,399) and the weighted average number of common shares outstanding of 60,805,535 (2012 – 49,385,203) respectively. The Company does not have any instruments that would give rise to a dilution effect as of December 31, 2013. The Company has 6,086,750 options and 8,951,600 warrants that are anti-dilutive and thus, not included in diluted loss per share as of December 31, 2013.

8 Receivables:

The Company's receivables are as follows:

	December 31, 2013	December 31, 2012
IVA/GST receivable	**$ 606,280**	$ 445,417
Other receivable	**227,997**	148,727
Advances receivable	**11,804**	7,778
Total	**$ 846,081**	$ 601,922

9 Income Taxes:

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2013 and 2012:

	2013	**2012**
Loss before taxes	(4,838,647)	(2,581,399)
Statutory tax rate	25.75%	25.00%
Expected income tax recovery	(1,245,952)	(645,350)
Non-deductible items	557,630	51,668
Change in estimates	69,008	(22,390)
Other	-	(29,815)
Change enacted tax rate	(194,115)	(578)
Functional currency adjustments	(560,563)	79,912
Foreign Tax Rate Difference	(37,468)	(228,953)
Change in Deferred tax asset not recognized	1,411,460	795,506
Total income taxes (recovery)	-	-

(Expressed in Canadian dollars)

9 Income Taxes *(continued)***:**

The British Columbia corporate tax rate has increased during the year, resulting in an increase in the Company's combined statutory tax rate.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Deferred tax assets (liabilities) at December 31, 2013 and 2012 are comprised of the following:

Canada

	2013	2012
Non-capital loss carryforwards	3,231,062	2,939,081
Exploration and evaluation assets	1,062,300	603,723
Capital losses	113,088	37,812
Property and equipment	29,929	40,893
Financial instrument	73,428	51,964
Financing costs	160,298	200,198
	4,670,105	3,873,671
Deferred tax asset not recognized	4,670,105	3,873,671
Net deferred tax asset (liability)	-	-

Mexico

	2013	2012
Net operating loss carryforwards	6,294,003	5,473,559
Property and equipment	34,286	19,583
Financial instrument	(134,670)	-
Exploration and evaluation assets	(5,101,796)	(5,016,345)
	1,091,823	476,797
Deferred tax asset not recognized	1,091,823	476,797
Net deferred tax asset (liability)	-	-

(Expressed in Canadian dollars)

9 Income Taxes *(continued):*

The Company has non capital loss carryforwards of approximately $12,427,157 (2012: $11,756,326), which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Canadian	
	2013
2024	167,304
2025	197,017
2026	424,974
2027	630,148
2028	1,176,346
2029	1,925,432
2030	2,031,522
2031	2,200,884
2032	1,645,917
2033	2,027,613
TOTAL	12,427,157

In addition, the Company has capital losses of $869,911, which may be carried forward indefinitely and applied to reduce future Canadian capital gains.

The Company has net operating loss carryforwards of approximately $20,980,007 (2012: $19,648,089) which may be carried forward to apply against future year income for Mexican tax purposes, expiring in the following years:

Mexican	
	2013
2015	127,600
2016	-
2017	3,263,500
2018	6,260,116
2019	1,199,307
2020	2,582,322
2021	7,161,809
2022	190,555
2023	194,798
TOTAL	20,980,007

(Expressed in Canadian dollars)

10 Supplemental Disclosure of Cash and Non-Cash Activities:

The following transactions incurred during the year did not include cash:

		2013		2012
Acquisition of shares as proceeds from option of mineral property	$	**(84,000)**	$	(252,000)
Issuance of share capital for acquisition mineral property interests		**52,500**		69,300
Other receivable and advances for mineral property costs		**(23,592)**		124,371
Mineral property costs included in accounts payable		**175,131**		(528,409)

11 Related Party Transactions and Balances:

Except as disclosed elsewhere in these consolidated financial statements the following related party transactions were incurred in the normal course of business and were measured at the exchange amount:

		2013		2012
Management fees charged by companies controlled by a director and/or officers	**$**	**503,000**	$	511,000
Consulting, administrative and geological fees charged by a company with common officers		**120,000**		120,000

The Company has entered into a consulting agreement with Makwa Exploration Ltd. for the services of James McDonald to act as the Company's President and CEO, and with Manly Capital Corp. for the services of Kenneth Berry to act as the Company's Chairman. The base monthly fee is $15,000 under each agreement. The consulting agreement was effective as of January 1, 2008 and expired on December 31, 2009. On expiration, the agreement extends in increments of 24 months, until terminated.

Effective September 1, 2008, the Company entered into an administrative services agreement with Touchstone Capital Corp. a private company indirectly related to two common officers of the Company. Touchstone provides services to the Company including assisting in professional analysis and planning of exploration programs, promotional materials; providing access to secretarial services and providing such other additional instructions and directions as the Company may require. For the year ended December 31, 2013, the Company incurred expenses of $120,000 (2012 - $120,000) under the administrative services contract.

In addition to the above:

a) Included in marketable securities as at December 31, 2013 is $322,000 (2012 - $712,000) market value of shares received from companies with directors in common.

b) Included in exploration recovery of costs as at December 31, 2013 is $1,141,026 (2012 - $1,057,520) received from joint venture partners who have a common director and a common officer.

c) Included in accounts receivable as at December 31, 2013 is $183,272 (2012 - $77,694) from companies who have common directors or officers.

d) Included in accounts payable as at December 31, 2013 is $32,976 (2012 - $5,077) to companies who have common directors or officers.

e) Included in prepaid expenses is $1,845 (2012 - $9,678) related to office deposits charged by a company with common directors.

f) The Company incurred $63,000 (2012 - $69,000), of which $48,000 (2012 - $nil) is held in accounts payable, for compensation to directors during the year ended December 31, 2013.

g) The Company incurred $120,000 (2012 - $20,000) for consulting fees to one director during the year ended December 31, 2013.

h) The Company incurred $785,050 (2012 - $464,019) for share based payment expenses to related parties during the year ended December 31, 2013.

(Expressed in Canadian dollars)

12 Contingent Liabilities:

The Company's mineral properties are affected by the laws and regulations concerning environmental protection that exist in the various jurisdictions. It is not possible to estimate the future impact on operating results, if any, as a result of, future changes in regulations or developments.

13 Segmented Information:

The Company has one reportable operating segment, being the acquisition and exploration and future development of mineral properties.

The Company's current assets, non-current assets, current liabilities, and mineral properties and deferred costs by geographic location are as follows:

	December 31, 2013	December 31, 2012
Canada:		
Current asset	**$ 3,507,543**	$ 8,159,259
Mineral property	**1,936,814**	2,043,782
Other Non-current asset	**188,757**	142,244
Current liability	**(283,338)**	(287,010)
	$ 5,349,776	$ 10,058,275

	December 31, 2013	December 31, 2012
Mexico:		
Current asset	**$ 857,445**	$ 369,660
Mineral property	**31,780,954**	25,140,650
Other Non-current asset	**153,492**	142,320
Current liability	**(253,097)**	(65,965)
	$ 32,538,794	$ 25,586,665

14 Commitments:

The Company entered into a contract for office rent, which commenced January 1, 2013 and expires December 31, 2015. The Company received a four month rent free period regarding its new office space that ended December 31, 2012. The following table summarizes the Company's total annual obligations under this agreement as at December 31, 2013:

2014	$ 38,028
2015	38,028
	$ 76,056

(Expressed in Canadian dollars)

14 Commitments *(continued)***:**

The Company entered into a contract for additional office rent, which commenced August 1, 2013 and expires July 31, 2018. The following table summarizes the Company's total annual obligations under this agreement as at December 31, 2013:

2014	$ 35,710
2015	36,275
2016	37,066
2017	37,066
2018	21,622
	$ 167,740

15 Financial Instruments and Financial Risk Management:

The Company's financial instruments include cash and cash equivalents, other receivable and advances, exploration advances, marketable securities, reclamation deposits, and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity and due to the insignificant carrying values of long term financial instruments except for marketable securities, which are measured at fair value through other comprehensive income at each reporting period end.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's accounts receivable relates to receivables from exploration partners who are earning a right to the Company's property via earn-in option agreements, Goods and Services Tax input tax credits and IVA credits (Mexican Value Added Tax refunds) from the Mexican Government. Accordingly, the Company views credit risk on accounts receivable as minimal, being the refund of tax credits in Canada and Mexico to moderate being receivables from exploration partners.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. To facilitate its expenditure program, the Company raises funds through private equity placements. The Company anticipates it will have adequate liquidity to fund its financial liabilities through future equity contributions.

15 Financial Instruments and Financial Risk Management *(continued):*

As at December 31, 2013, the Company's financial liabilities were comprised of accounts payable and accrued liabilities, which have a maturity of less than one year.

(c) Market risk:

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

(i) Currency risk:

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian dollar, the United States dollar and the Mexican Peso. The Company's transactions are denominated in Canadian dollars, United States dollars and the Mexican Peso. The Company has not entered into any arrangements to hedge currency risk but does maintain cash balances within each currency with a predominate balance held in Canadian Dollars. Canadian dollars are exchanged when needed to meet foreign denominated liabilities.

The balances denominated in foreign currency are as follows:

	December 31, 2013	December 31, 2012
	US$	US$
Cash	**35,203**	85,055
Other receivables and advances	**-**	-
Trade accounts payable and accrued liabilities	**-**	-
	Mexican Peso	Mexican Peso
Cash	**932,103**	1,606,092
Other receivables and advances	**6,821,319**	2,996,041
Trade accounts payable and accrued liabilities	**592,504**	843,766

The Company has completed a sensitivity analysis to estimate the impact of the change in the foreign exchange rates on net loss for the period. The result of the sensitivity analysis shows a change in +/- 10% in the Mexican Peso exchange rate could have an impact of approximately +/- $6,500 on the Company's net loss. This result arises primarily because the Company has Mexican Peso denominated cash accounts, accounts receivable and short term liabilities. The actual results of a change in foreign exchange rates would depend on the foreign currency denominated assets and liabilities at the time and could cause the impact on the Company's results to differ from above.

(ii) Commodity price risk:

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. The Company is exposed to the price volatilities for precious and base metals that could significantly impact its future operating cash flow. As part of its routine activities, management is closely monitoring the trend of international metal prices.

(Expressed in Canadian dollars)

15 Financial Instruments and Financial Risk Management *(continued):*

(iii) 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 risk that the Company will realize a loss as a result of a decline in the fair value of cash and cash equivalents is limited because of their short-term investment nature. A variable rate of interest is earned on cash and cash equivalents, changes in market interest rates at the year-end would not have a material impact on the Company's consolidated financial statements.

d) Fair value of financial instruments

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

December 31, 2013		**Level 1**		**Level 2**		**Level 3**		**Total**
Marketable securities	$	382,140	$	-	$	-	$	382,140
Cash and Cash Equivalents	$	2,804,423	$	-	$	-	$	2,804,423
December 31, 2012		Level 1		Level 2		Level 3		Total
Marketable securities	$	892,333	$	-	$	-	$	892,333
Cash and Cash Equivalents	$	6,925,053	$	-	$	-	$	6,925,053

Level 1 – quoted prices (unadjusted) 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).

16 Capital Management:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the development of its mineral properties. Therefore, the Company monitors the level of risk incurred in its mineral property expenditures relative to its capital structure.

The Company considers its capital structure to include working capital and shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the development of its mineral properties, the Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary.

To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

16 Capital Management *(continued)***:**

The Company's investment policy is to hold cash in interest bearing, Schedule I bank accounts and highly liquid short-term interest bearing investments, with maturities of one year or less which can be liquidated at any time without penalties.

The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the year ended December 31, 2013.