

**FALCO PACIFIC RESOURCE GROUP INC.**

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2013**

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

**Under National Instrument 51-102, part 4, subsection 4.3(3), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.**

**FALCO PACIFIC RESOURCE GROUP INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)  
(UNAUDITED)

	December 31, 2013	Audited June 30, 2013
<b>ASSETS</b>		
<b>Current</b>		
Cash (Note 4)	\$ 6,281,363	\$ 2,802,127
Receivables (Note 5)	259,086	298,320
Prepaid expenses	<u>55,795</u>	<u>41,155</u>
	6,596,244	3,141,602
<b>Non-current</b>		
Equipment (Note 6)	49,633	70,156
Refundable tax credit (Note 5)	378,526	378,526
Mineral properties (Note 7)	<u>8,693,849</u>	<u>8,164,571</u>
	\$ 15,718,252	\$ 11,754,855

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 188,579	\$ 350,720
Flow-through premium (Note 9)	<u>399,033</u>	<u>237,967</u>
	587,612	588,687
<b>Shareholders' equity</b>		
Capital stock (Note 10)	17,982,409	13,214,253
Share-based payments reserve (Note 10)	723,855	335,437
Deficit	<u>(3,575,624)</u>	<u>(2,383,522)</u>
	<u>15,130,640</u>	<u>11,166,168</u>
	\$ 15,718,252	\$ 11,754,855

**Nature and continuance of operations** (Note 1)

**Subsequent events** (Note 14)

**Approved on behalf of the Board of Directors on February 28, 2014:**

"Darin Wagner"

Director

"Kelly Klatik"

Director

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

**FALCO PACIFIC RESOURCE GROUP INC.**  
**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian Dollars)  
(UNAUDITED)

	Three months Ended December 31, 2013	Three months Ended December 31, 2012	Six months Ended December 31, 2013	Six months Ended December 31, 2012
<b>EXPENSES</b>				
Office and miscellaneous	\$ 67,363	\$ 106,284	\$ 127,596	\$ 106,657
Depreciation (Note 6)	12,801	6,445	20,523	6,445
Filing fees	12,629	10,892	14,938	20,303
Foreign exchange (gain) loss	(2,057)	-	(348)	-
Professional fees	56,446	79,626	92,814	82,312
Consulting and compensation	154,746	249,121	378,725	249,121
Share-based compensation (Note 10)	358,843	-	388,418	335,807
Promotion	100,583	6,426	116,234	6,426
Investor relations	1,561	-	1,561	-
Travel	117,742	25,905	139,141	39,780
	(880,657)	(484,699)	(1,279,602)	(846,851)
Other income – flow through premium (Note 9)	37,000	-	87,500	-
<b>Loss and comprehensive loss for the period</b>	<b>(843,657)</b>	<b>(484,699)</b>	<b>(1,192,102)</b>	<b>(846,851)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.015)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ (0.05)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<b>61,860,737</b>	<b>25,921,551</b>	<b>57,601,713</b>	<b>16,934,551</b>

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

**FALCO PACIFIC RESOURCE GROUP INC.**  
**STATEMENT OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
(UNAUDITED)

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (843,657)	\$ (484,699)	\$ (1,192,102)	\$ (846,851)
Adjustments for non-cash items:				
Depreciation (Note 6)	12,801	6,445	20,523	6,445
Share-based compensation (Note 9)	358,843	-	388,418	335,807
Other income – flow-through premium	(37,000)	-	(87,500)	-
Changes in non-cash working capital items:				
Accounts payable and accrued liabilities	(102,213)	419,779	(122,142)	427,303
Receivable	60,226	(129,299)	39,235	(129,299)
Prepaid expense	(23,368)	(5,189)	(14,640)	12,146
Cash used in operating activities	<u>(574,368)</u>	<u>(192,963)</u>	<u>(968,208)</u>	<u>(194,449)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Equipment	-	(50,595)	-	(50,595)
Investment in mineral properties	<u>(294,687)</u>	<u>(712,462)</u>	<u>(552,779)</u>	<u>(5,512,462)</u>
Cash used in investing activities	<u>(294,687)</u>	<u>(763,057)</u>	<u>(552,779)</u>	<u>(5,563,057)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of capital stock	5,105,197	-	5,105,197	6,570,500
Share issuance costs	<u>(104,974)</u>	<u>73,337</u>	<u>(104,974)</u>	<u>(124,657)</u>
Cash provided by financing activities	<u>5,000,223</u>	<u>73,337</u>	<u>5,000,223</u>	<u>6,445,843</u>
<b>(Decrease) Increase in cash during the period</b>	4,131,168	(882,683)	3,479,236	688,337
<b>Cash, beginning of period</b>	<u>2,150,195</u>	<u>3,517,059</u>	<u>2,802,127</u>	<u>1,946,039</u>
<b>Cash, end of period</b>	<u>\$ 6,281,363</u>	<u>\$ 2,634,376</u>	<u>\$ 6,281,363</u>	<u>\$ 2,634,376</u>
<b>Cash paid during the year for interest</b>	\$ -	\$ -	\$ -	\$ -
<b>Cash paid during the year for income taxes</b>	-	-	-	-
<b>Supplemental disclosure with report to cash flows (Note 14)</b>				

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

**FALCO PACIFIC RESOURCE GROUP INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in Canadian Dollars)  
(UNAUDITED)

	Capital Stock		Share Based Payment Reserve	Deficit	Total Shareholders' Equity
	Shares	Amount			
<b>Balance June 30, 2012</b>	9,843,551	\$ 2,552,438	\$ 39,487	\$ (651,500)	\$ 1,940,425
Private placement, net of share issue costs	35,752,500	\$ 8,688,458	\$ -	\$ -	\$ 8,688,458
Shares issued for mineral property	7,000,000	1,750,000	-	-	1,750,000
Share issue costs – non cash	440,000	110,000	-	-	110,000
Stock options exercised	245,000	113,357	(39,857)	-	73,500
Share-based compensation	-	-	335,807	-	335,807
Loss for the year	-	-	-	(1,732,022)	(1,732,022)
<b>Balance June 30, 2013</b>	53,281,051	\$ 13,214,253	\$ 335,437	\$ (2,383,522)	\$ 11,166,168
Private placement, net of share issue costs	16,188,769	4,474,976	-	-	4,474,976
Shares issued for mineral property	50,000	16,500	-	-	16,500
Share issue costs – non cash	507,638	276,680	-	-	276,680
Share-based compensation	-	-	388,418	-	388,418
Loss for the period	-	-	-	(1,192,102)	(1,192,102)
<b>Balance December 31, 2013</b>	70,027,458	\$ 17,982,409	\$ 723,855	\$ (3,575,624)	\$ 15,130,640

Six Month Comparative:

<b>Balance June 30, 2012</b>	9,843,551	\$ 2,552,438	\$ 39,487	\$ (651,500)	\$ 1,940,425
Private placement, net of share issue costs	26,282,00	6,335,843	-	-	6,335,843
Shares issued for mineral property	7,000,000	1,750,000	-	-	1,750,000
Share issue costs – non cash	440,000	110,000	-	-	110,000
Share-based compensation	-	-	335,807	-	335,807
Loss for the period	-	-	-	(846,851)	(846,851)
<b>Balance December 31, 2012</b>	43,565,551	\$ 10,748,281	\$ 375,294	\$ (1,498,351)	\$ 9,625,224

The accompanying notes are an integral part of these financial statements

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Falco Pacific Resource Group Inc. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on March 16, 2010 and was classified as a Capital Pool Company as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4. The Company completed its qualifying transaction on September 24, 2012 and is now classified as a Tier 2 mining issuer and its common shares trade under the symbol “FPC” on the TSX Venture Exchange.

The Company is in the business of exploration and evaluation of these properties and evaluation of other similar assets for base/precious metals.

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s continuing operations are dependent upon its ability to either secure additional equity capital or generate cash flow from operations in the future, which is not assured. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary, should the Company be unable to secure additional equity capital or generate cash from operations in the future.

## **2. BASIS OF PRESENTATION**

These financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the IFRS interpretations committee (“IFRIC”). The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. Management believes that the Company has sufficient working capital to maintain its operations for the next year.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Critical accounting estimates and judgments**

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Information on significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are noted below:

#### **i) Share based payments**

Charges for share based payments are based on the fair value at the date of the award. Stock options are valued using the Black-Scholes option pricing model and inputs to the model include assumptions on share price volatility, discount rates and expected term, dividend yield, and expected forfeitures.

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

**Critical accounting estimates and judgments (cont'd...)**

**ii) Income taxes**

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by Management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. There are many transactions undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognized liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable an adjustment will be made, the Company records its best estimate of the tax liability or asset including the related interest and penalties in the current tax provision. The Company believes it has adequately provided for the probable outcome of these matters, however, the final outcome may result in a materially different outcome than the amount recognized.

**iii) Mineral properties**

Mineral property costs are initially capitalized as intangible exploration assets with the intent to establish commercially viable reserves. The Company is required to make judgments and estimates as to the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds its recoverable amount.

**Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on deposit and highly liquid short-term interest bearing variable rate investments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

**Mineral properties**

Costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property until the commencement of commercial production. Should the company incur pre-exploration costs, these costs are expensed as incurred. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and depreciated using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the mineral property, the excess is recognized as income in the year received. The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.



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

**Impairment**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Provisions for environmental rehabilitation**

The Company recognizes the liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of tangible long-lived assets in the period when the liability arises. The net present value of future rehabilitation costs is capitalized to the long-lived asset to which it relates with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. The increase in the provision due to the passage of time is recognized as interest expense.

The Company has no known restoration, rehabilitation or environmental costs related to its mineral properties.

**Equipment**

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is provided at rates calculated to write off the cost of equipment, less its estimated residual value, using the declining balance method at the following rates per annum:

Office furniture	20%
Computer hardware	55%
Computer software	100%
Leasehold improvements	50%

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

**Flow-through shares**

The Company will, from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) capital stock. Upon expenses being incurred, the Company derecognizes the liability and the premium is recognized as other income.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a period of up to two-years.

**Warrants**

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore its mineral properties. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the agreement. Warrants that are part of units are assigned a value based on the residual value of the unit after deducting the fair value of the common shares. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share-based payments.

**Share-based compensation**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

**Income taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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

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

Deferred tax is recorded using the statement of financial position 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. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities which affect neither accounting nor taxable loss as well as differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Loss per share**

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

**Financial instruments**

Financial assets

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

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

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

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

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

**Financial instruments (cont'd...)**

Financial assets (cont'd...)

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

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

Financial liabilities

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

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

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

The Company has classified its cash as fair value through profit and loss. Receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

**New standards and interpretations not yet adopted**

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

The Company has not early adopted these standards and is currently assessing the impact these standards will have on its financial statements

- i) IFRS 9: New standard that replaced IAS 39 for classification and measurement of financial assets, effective for annual periods beginning on or after January 1, 2015;
- ii) IFRS 10: New standard to establish principles for the presentation and preparation of IFRS 11: New standard to account for the rights and obligations in accordance with a joint agreement, effective for annual periods beginning on or after January 1, 2013
- iii) IFRS 12: New standard for the disclosure of interest in other entities not within the scope of IFRS 9/ IAS 39: effective for annual periods on or after January 1, 2013
- iv) IFRS 13: New standard on the measurement and disclosure of fair value, effective for annual periods beginning on or after January 1, 2013

**FALCO PACIFIC RESOURCE GROUP INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
December 31, 2013  
(Unaudited)

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

**New standards and interpretations not yet adopted (cont'd...)**

- v) IAS 1 (Amendment): Presentation of other comprehensive income, effective for annual periods beginning on or after January 1, 2013
- vi) IAS 27 (Amendment): As a result of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 27 has statements.
- vii) IAS 28 (Amendment): New standard issued that supersedes IAS 28 (2003) to prescribe the after January 1, 2013
- viii) IAS 32 (Amendment): Standard amended to clarify requirements for offsetting financial assets and financial liabilities, effective for annual periods beginning on or after January 1, 2014

**4. CASH**

	December 31, 2013	June 30, 2013
General cash held in bank or trust	\$ 6,281,363	\$ 2,802,127

**5. RECEIVABLES**

Receivables are comprised of the following:

	December 31, 2013	June 30, 2013
Current: Goods and services tax receivable	\$ 229,445	\$ 171,297
QST receivable	29,641	127,023
	\$ 259,086	\$ 298,320
Non-Current: Refundable tax credit <sup>(1)</sup>	\$ 378,526	\$ 378,526

- (1) The balance relates to a refundable tax credit amounting to 35% of eligible exploration expenditures incurred in Quebec. The amount has been classified as non-current due to the expectation that it will be received beyond twelve months.

**6. EQUIPMENT**

	Leasehold Improvements		Office Equipment		Computer Equipment		Total
Balance as at June 30, 2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Additions	10,161	25,144	59,549	94,854	-	-	94,854
Depreciation	-	(2,515)	(22,183)	(24,698)	-	-	(24,698)
Balance as at June 30, 2013	\$ 10,161	\$ 22,629	\$ 37,366	\$ 70,156	-	-	70,156
Additions	-	-	-	-	-	-	-
Depreciation	(5,080)	(2,262)	(13,181)	(20,523)	-	-	(20,523)
Balance as at December 31, 2013	\$ 5,081	\$ 20,367	\$ 24,185	\$ 49,633	-	-	49,633

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**7. MINERAL PROPERTIES**

On September 12, 2012, the Company entered into a purchase agreement (the “agreement”) with QMX Gold Corporation (“QMX”). QMX is a company incorporated in Ontario and listed on the Toronto Stock Exchange.

Pursuant to the agreement, the Company acquired the Project by paying QMX \$5,000,000 cash consideration and issuing QMX 7,000,000 common shares of the Company at an issue price of \$0.25 per share. An additional \$131,761 in legal and other related acquisition costs were capitalized in securing the project.

Provided that QMX retains a 10-per-cent equity interest in the Company on an undiluted basis, the Company has also granted QMX a first right to purchase securities of the Company in any future financing completed by the company in which QMX may be legally entitled to participate following the proposed transaction and the right to nominate one person to the Company’s board of directors. Should QMX's equity interest in the Company at any time fall below 10 per cent (on an undiluted basis), the foregoing rights shall immediately cease and be of no further force and effect.

On August 15, 2013, the Company finalized an Option Agreement to acquire a 100% interest in the Beauchastel Gold property, which was approved by the TSX on September 3, 2013. The Beauchastel property is located in the Flavrian portion of the Project area contiguous with claims held by the Company. Under the terms of the Option Agreement the Company has paid \$25,000 and issued 50,000 common shares to Societe D’exploration Miniere Vior.

To complete the exercise of the Option, the Company is required to incur \$50,000 in expenditures on the property, pay an additional \$25,000, and issue 125,000 common shares within 18 months of TSX acceptances, being March 3, 2015.

The Company has included the following costs on its mineral properties in the Rouyn-Noranda district in Quebec, Canada:

For the six month period ended	December 31, 2013	December 31, 2012
Acquisition costs	\$ 42,263	\$ 6,868,914
Consulting and salaries	186,288	263,680
Data compilation and other	34,735	33,180
Drilling	-	95,323
Geochemistry	-	12,356
Geology	265,992	9,791
Geophysics	-	179,218
Total expenditures for the period	529,278	7,462,462
Expenditures at the beginning of the year	8,164,571	-
<b>Total</b>	<b>\$ 8,693,849</b>	<b>\$ 7,462,462</b>

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**7. MINERAL PROPERTIES (cont'd)**

For the three month period ended	December 31, 2013	December 31, 2012
Acquisition costs	\$ -	\$ 118,914
Consulting and salaries	82,253	263,680
Data compilation and other	2,422	33,180
Drilling	-	95,323
Geochemistry	-	12,356
Geology	200,011	9,791
Geophysics	-	179,218
Total expenditures for the period	284,686	712,462
Expenditures at the beginning of the period	8,409,163	-
<b>Total</b>	<b>\$ 8,693,849</b>	<b>\$ 7,462,462</b>

For the year ended	June 30, 2013	June 30, 2012
Acquisition costs	\$ 6,881,761	\$ -
Consulting and salaries	575,265	-
Data compilation and other	256,973	-
Drilling	213,405	-
Geochemistry	46,429	-
Geology	51,114	-
Geophysics	518,150	-
Total expenditures for the year	8,543,097	-
Refundable tax credit	(378,526)	-
<b>Total</b>	<b>\$ 8,164,571</b>	<b>\$ -</b>

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2013	June 30, 2013
Trade payables	\$ 153,717	\$ 211,659
Accrued liabilities	34,862	110,794
	<b>\$ 188,579</b>	<b>\$ 350,720</b>

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**9. FLOW-THROUGH PREMIUM**

	December 31, 2013	June 30, 2013
Beginning balance	\$ 237,967	\$ -
Liability incurred on flow-through shares issued	248,566	267,050
Settlement of flow-through share liability on expenditures made	(87,500)	(29,083)
Ending balance	\$ 399,033	\$ 237,967

The Company periodically issues flow-through shares with any resulting flow-through premium recorded as other liability. The liability is subsequently reduced when the required exploration expenditures are made, and accordingly, a recovery of flow-through premium is recorded as other income.

During the year ended June 30, 2013 the Company issued 2,670,500 flow-through shares for gross proceeds at \$1,068,200. During the period ended December 31, 2013 the Company issued 4,142,770 flow-through shares for gross proceeds at \$1,491,397 (Note 10). The Company is committed to spending the proceeds on exploration and development activities and has incurred \$467,315 to date.

**10. CAPITAL STOCK AND RESERVES**

Authorized: Unlimited common shares without par value  
Shares held in Escrow: 11,436,000

During the period ended December 31, 2013:

- i) On November 14, 2013 the Company closed a non-brokered private placement of an aggregate of 12,045,999 units of the Company at a price of \$0.30 per unit and 4,142,770 flow-through common shares at a price of \$0.36 for total gross proceeds of \$5,105,197. Each Unit shall consist of one non-flow-through common share in the capital of the Company and one half of one transferable common share purchase warrant. Each Warrant shall be exercisable into one additional Common Share of the Company at an exercise price of \$0.60 per Common Share until November 14, 2015. The Warrants shall be callable such that should the daily volume weighted average trading price of the Common Shares of the Company on the TSX Venture Exchange exceed \$1.00 for a period of 20 consecutive trading days, during the period following 4 months from the closing date of the Offering until the expiry date of the Warrants, the Company may give notice in writing to the Warrant holders that the Warrants shall expire on that day which is 30 days following the notice date unless exercised by the holders prior to such date. In conjunction with the closing of the Offering, the Company agreed to pay certain finders a fee equal to a cash commission or Units at 5% of the gross proceeds raised from subscriptions in the Offering from persons introduced to the Company by the Finders which is equal to \$56,602 and 507,638 Units (\$152,291). There were other share issuance costs of \$48,372 composed of legal and TSX fees. As well the company has issued to the Finders common share warrants equal to 5% of the Units and FT Shares subscribed by for by persons introduced to the Company by the Finders totaling 677,688 Finders Warrants. Each Finders Warrant is exercisable to acquire one Common Share of the Company at an exercise price of \$0.45 at any time up to May 14, 2015.
- ii) On September 3, 2013 the Company issued 50,000 shares at a price of \$0.33 for a property option agreement.



**10. CAPITAL STOCK AND RESERVES (cont'd...)**

During the year ended June 30, 2013:

- i) On June 14, 2013 the Company issued 6,800,000 shares at a price of \$0.25 per share in a non-brokered private placement. There were 3,400,000 share purchase warrants connected to the shares issued and these warrants are exercisable at a price of \$0.45 for a period of eighteen months from June 14, 2013 unless a volume-weighted average trading price of greater than \$0.60 for 15 consecutive trading days shortening this expiry date of the warrants to 30 days from the date of notice. The gross proceeds total \$1,700,000 with net proceeds of \$1,624,720 after share issue costs made up of finders' fees, legal costs, and filing fees of \$75,280.
- ii) On May 15, 2013 the Company issued 2,670,500 flow-through shares at a price of \$0.40 per share in a non-brokered private placement. The gross proceeds total \$1,068,200 with net proceeds of \$994,944 after share issue costs made up of finders' fees, legal costs, and filing fees of \$73,256. Proceeds of \$267,050 were allocated to the flow-through share premium (Note 9).
- iii) The Company issued 26,282,000 subscription receipts at a price at \$ 0.25 each to raise gross proceeds of \$6,570,500. The Company incurred cash share issue costs and finders' fees of \$124,657 in connection with the subscription receipts. Upon the completion of the acquisition (Note 7), the subscription receipts were converted into common shares of the Company. The Company also issued 440,000 finders' shares at a value of \$0.25 per share.
- iv) On September 24, 2012, the Company entered into a purchase agreement (the "agreement") with QMX Gold Corporation ("QMX") (Note 7). In relation to the agreement the company issued 7,000,000 common shares ("QMX Interest") at a value of \$0.25 per share. Under a pooling and sale agreement, QMX will not without the express written consent of the Company, transfer or sell the QMX Interest or other securities acquired of the Company after the date of the agreement other than as follows: (a) in any given 30 day period an amount equal to 10% of the average trading volume of common shares of the Company for the preceding 30 day period; and (b) in any five day period an amount equal to 5% of the average trading volume of common shares of the Company for the preceding five day period.
- v) 245,000 stock options were exercised at a price of \$0.30 for cash proceeds of \$73,500.

During the year ended June 30, 2012:

- i) In February 2012 the Company issued 1,643,617 shares at a price of \$0.41 per share in a private placement with certain former special warrant holders for gross proceeds of \$673,883. Share issue costs of \$3,603 were incurred.

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**10. CAPITAL STOCK AND RESERVES (cont'd...)**

**Share-based compensation**

**Stock options**

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2012	250,000	\$ 0.10
Granted	2,390,000	0.34
Exercised	(245,000)	0.30
Forfeited	(190,000)	\$ 0.30
Balance, June 30, 2013	2,205,000	\$ 0.32
Granted	1,480,000	\$ 0.40
Forfeited	(85,000)	0.30
Balance, December 31, 2013	3,600,000	\$ 0.36
Options exercisable, December 31, 2013	2,950,000	\$ 0.34

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

Number of Options Outstanding	Number Of Options Exercisable	Exercise Price	Expiry Date
250,000	250,000	\$ 0.10	August 30, 2015
1,575,000	1,495,000	\$ 0.30	September 24, 2017
95,000	80,000	\$ 0.50	December 5, 2017
200,000	150,000	\$ 0.73	January 6, 2018
1,480,000	975,000	\$ 0.40	November 19, 2018

**Share-based compensation**

The Company adopted an incentive stock option plan (the "Option Plan"), which provides that the board of directors may from time to time, in its discretion, and in accordance with TSX-V Policies, grant to the directors, officers and technical consultants, non-transferable options to purchase Shares, provided that the number of Shares reserved for issuance will not exceed 10% of the Shares issued and outstanding. The maximum term of stock options is 10 years and terms of vesting are at the discretion of the Board of Directors.

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**10. CAPITAL STOCK AND RESERVES (cont'd...)**

The following assumptions were used for the Black-Scholes valuation of stock options granted during the periods:

	Dec. 31, 2013	June 30, 2013
Weighted average fair value per option	\$ 0.27	\$ 0.20
Risk-free interest rate	1.56%	1.36%
Expected life of options	5 years	5 years
Annualized volatility	100%	100%
Dividend rate	-	-

**Warrants**

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2011 and June 30, 2012	178,997	\$ 0.30
Expired during the year	(178,997)	0.30
Issued during the year	3,400,000	0.45
Balance at June 30, 2013	3,400,000	\$ 0.45
Issued during the year	6,954,507	0.59
Balance at December 31, 2013	10,354,507	\$ 0.54

Warrants outstanding at December 31, 2013 are as follows:

Number of Warrants	Exercise Price	Expiry Date
3,400,000	\$ 0.45	December 14, 2014
677,688	\$ 0.45	May 14, 2015
6,023,000	\$ 0.60	November 14, 2015

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**11. RELATED PARTY TRANSACTIONS**

The Company transacts with key individuals including management and from time to time with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these transactions are for management, financial, consulting and technical services rendered. Key management personnel are defined as officers and directors of the Company.

Management services and compensation during the period consist of consulting fees paid and stock options granted to directors and officers.

The following summarizes key management compensation:

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	Dec. 31, 2013	Dec. 31, 2012
Consulting and Director fees	\$ 158,918	\$ 136,358
Share based compensation	276,606	97,800
	<u>\$ 435,524</u>	<u>\$ 234,158</u>

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Included in accounts payable was \$48,533 (2012 - \$63,872) owing to related parties. There were no other transactions between the Company and related parties.

**12. FINANCIAL INSTRUMENTS**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities, approximate carrying value, which is the amount presented on the statements of financial position. The Company's other financial instrument, cash, under the fair value hierarchy, is based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at large Canadian financial institutions with a portion in interest bearing accounts. The Company has no investment in asset backed commercial paper. The Company is not exposed to any significant credit risk.

**12. FINANCIAL INSTRUMENTS (cont'd...)**

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2013, the Company had a cash balance of \$6,281,363 (June 30, 2013 - \$2,802,127) to settle current liabilities of \$188,579 (June 30, 2013 - \$588,687). Management believes that it has sufficient funds to meet its current liabilities as they become due.

*Market risk*

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

a) Interest rate risk

The Company has cash balances and interest-bearing investments. The interest earned on the investments approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at December 31, 2013 the Company had a total of \$ Nil in investment-grade short-term deposit certificates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash is minimal because of the short-term nature of these investments.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to financial instruments that are denominated in United States dollars ("U.S.\$") the impact on net loss for the year was not significant.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and copper, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

*Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and evaluation of its mineral properties, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and investments. The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

**13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The following non-cash transactions were not included in the statement of cash flows for the period ended December 31, 2013:

- a) The inclusion of \$37,151 in mineral property costs in accounts payable.
- b) The issuance of 50,000 common shares at a price of \$0.33 per share for the acquisition of mineral properties having a value of \$16,500
- c) The issuance of 507,638 units of the Company to finders at a price of \$0.30 per unit having a value of \$152,291 and 677,688 finders warrants having a value of \$124,389.

The following non-cash transactions were not included in the statement of cash flows for the period ended December 31, 2012:

- a) The inclusion of \$200,000 in mineral property costs in accounts payable
- b) The issuance of 7,000,000 common shares at a price of \$0.25 per share for the acquisition of mineral properties having a value of 1,750,000
- c) The issuance of 440,000 common shares to finders at a price of \$0.25 per share having a value of \$110,000

**14. SUBSEQUENT EVENTS**

- (i) Subsequent to quarter end 500,000 share purchase warrants at a price of \$0.45 have been exercised for proceeds of \$225,000.