

VATIC VENTURES CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED

MAY 31, 2014

EXPRESSED IN CANADIAN DOLLARS

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), 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 accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor Davidson & Company LLP 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 condensed consolidated interim financial statements.

July 29, 2014

VATIC VENTURES CORP.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars - unaudited)

	May 31, 2014	February 28, 2014
ASSETS		
Current		
Cash	\$ 173	\$ 4,139
Amounts receivable	24,642	17,943
Prepaid expenses (Note 8)	10,500	-
	35,315	22,082
Non-current		
Equipment (Note 4)	4,651	4,951
Exploration and evaluation assets (Note 5)	193,765	193,765
Total assets	\$ 233,731	\$ 220,798
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 341,885	\$ 342,116
Loans payable (Note 7)	120,853	117,392
Due to related parties (Note 11)	133,095	99,929
Total liabilities	595,833	559,437
EQUITY (DEFICIENCY)		
Share capital (Note 8)	2,839,049	2,839,049
Subscription received (Note 8)	76,000	-
Share-based payment reserve (Note 8)	97,617	97,617
Warrant reserve (Note 8)	29,205	29,205
Deficit	(3,403,973)	(3,304,510)
Total equity (deficiency)	(362,102)	(338,639)
Total liabilities and equity (deficiency)	\$ 233,731	\$ 220,798

Nature of operations and going concern (Note 1)**Commitments (Note 14)**

Approved by the Board of Directors

"Nasim Tyab"

Director

"Matt Mikulic"

Director

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

VATIC VENTURES CORP.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars - unaudited)

	Three months ended	
	May 31, 2014	May 31, 2013
Expenses		
Amortization (Note 4)	\$ 300	\$ 317
Business development	15,301	625
Consulting fees	952	1,000
Management fees (Note 11)	40,500	44,250
Office and miscellaneous	3,385	8,183
Professional fees	7,391	11,142
Rent	2,700	2,700
Salaries and wages	1,170	3,212
Settlement of option agreement (Note 5)	14,100	-
Transfer agent and filing fees	181	9,396
Travel	10,022	-
Total expenses	(96,002)	(80,825)
Interest expense	(3,461)	(5,831)
	(3,461)	(5,831)
Net and comprehensive loss for the year	\$ (99,463)	\$ (86,656)
Weighted average number of common shares outstanding (basic and diluted)	9,315,800	2,685,973
Basic and diluted net loss per share	\$ (0.01)	\$ (0.03)

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

VATIC VENTURES CORP.

Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)

(Expressed in Canadian Dollars - unaudited)

	Number of shares issued	Share Capital	Warrant reserve	Share-based payment reserve	Subscriptions received	Deficit	Total
Balance, February 28, 2013	3,357,467	\$ 2,511,696	\$ 11,658	\$ 119,292	\$ -	\$ (2,599,121)	\$ 43,525
Net loss for the period	-	-	-	-	-	(86,656)	(86,656)
Balance, May 31, 2013	3,357,467	2,511,696	11,658	119,292	-	(2,685,777)	(43,131)
Balance, February 28, 2014	9,315,799	\$ 2,839,049	\$ 29,205	\$ 97,617	\$ -	\$ (3,304,510)	\$ (338,639)
Net loss for the period	-	-	-	-	-	(99,463)	(99,463)
Subscription received	-	-	-	-	76,000	-	76,000
Balance, May 31, 2014	9,315,799	\$ 2,839,049	\$ 29,205	\$ 97,617	\$ 76,000	\$ (3,403,973)	\$ (362,102)

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

VATIC VENTURES CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars - unaudited)

	Three months ended	
	May 31, 2014	May 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (99,463)	\$ (86,656)
Adjustments for:		
Amortization	301	317
Changes in non-cash working capital items:		
Decrease (increase) in amounts receivable	(6,699)	(4,341)
Decrease in prepaid expenses	(10,500)	-
Increase in due to related parties	33,166	10,760
Increase (decrease) in accounts payable and accrued liabilities	(232)	24,108
Net cash used in operating activities	(83,427)	(55,812)
CASH FLOWS FROM FINANCING ACTIVITIES		
Subscriptions received	76,000	-
Loans payable (Note 12)	3,461	8,130
Net cash provided by financing activities	79,461	8,130
Decrease in cash	(3,966)	(47,682)
Cash, beginning of the period	4,139	43,649
Cash (deficiency), end of the period	\$ 173	\$ (4,033)

Supplemental disclosure with respect to cash flows (Note 12)

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

VATIC VENTURES CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars - unaudited)
For the three month period ended May 31, 2014

1. NATURE OF OPERATIONS AND GOING CONCERN

Vatic Ventures Corp. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on October 30, 2007 and was classified as a Capital Pool Company as defined in the TSX Venture Exchange (“Exchange”) Policy 2.4 until January 26, 2011. On January 26, 2011, the Company completed its Qualifying Transaction (the “Transaction”) and received the final exchange bulletin for the Transaction from the Exchange. As a result, the Company’s shares are listed for trading on the Exchange under the trading symbol “VCV”.

Following the completion of the Transaction, the Company is listed as a Tier 2 mining exploration issuer. The Company operates in a single business segment focusing on mineral exploration in British Columbia, Canada. To date, the Company has not generated any revenue from its mineral exploration activities and has met its cash requirements primarily through share issuances and interest income. Until the Company attains profitability, it will be necessary to raise additional financing for general working capital and for exploration costs on its properties. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the future success of the business could be adversely affected. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

On September 23, 2013, the Company completed a share consolidation in which one post consolidation common share replaced eight pre-consolidation common shares (Note 8). Upon Exchange approval of the share consolidation, the Company began trading on a post-consolidation basis under the symbol “VCV” on September 23, 2013. As such, all current and comparative share capital amounts have been restated to account for the 8 to 1 common share consolidation.

The head office, principal address, registered address and records office of the Company are located at 1008 Homer Street, Suite 318, Vancouver, British Columbia, Canada, V6B 2X1.

On June 20, 2012, the Company incorporated two wholly owned subsidiaries VV Mining Exploration Services Mexico S. DE. R. I. and VV Mining Mexico S. DE R. I. C. V. to carry out the exploration activities of the La Silla West claims in the State of Sinaloa, Mexico. As at May 31, 2014, the two subsidiaries were inactive. These financial statements present the consolidated operations of the Company and its subsidiaries.

As at May 31, 2014, the Company had a cumulative deficit of \$3,403,973 (February 28, 2014 - \$3,304,510) and a working capital deficiency of \$560,518 (February 28, 2014 - \$537,355). The Company expects to incur further losses in the development of its business, all of which indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. These condensed consolidated interim financial statements (“consolidated 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 operations of the Company were primarily funded by the issuance of share capital. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. However, the Company’s future capital requirements will depend on many factors, including operating costs, the current capital market environment and global market conditions.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

VATIC VENTURES CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars - unaudited)
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2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The consolidated interim financial statements of the Company should be read in conjunction with the Company's 2014 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2014 annual financial statements, except for income tax expense which is recognized and disclosed for the full financial year in the audited financial statements.

Approval of the financial statements

The consolidated interim financial statements of the Company for the three months ended May 31, 2014, were reviewed by the Audit Committee and approved and authorized for issue on July 29, 2014 by the Board of Directors of the Company.

Basis of preparation

The consolidated financial statements have been prepared on an accrual basis except for cash flow information and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

Basis of consolidation

These consolidated financial statements include the accounts and operations of the Company and its wholly owned subsidiaries, VV Mining Exploration Services Mexico S. DE. R. I. and VV Mining Mexico S. DE R. I. C. V. The two subsidiaries were incorporated in Mexico on June 20, 2012. Details of controlled entities are as follows,

	Country of incorporation	Percentage owned May 31, 2014
VV Mining Exploration Services Mexico S. DE. R. I.	Mexico	100%
VV Mining Mexico S. DE R. I. C. V.	Mexico	100%

All inter-company transactions and balances have been eliminated upon consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses.

VATIC VENTURES CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars - unaudited)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Significant Accounting Judgments

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statement are discussed below:

1) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

2) Exploration and Evaluation Expenditures

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

If, after exploration and evaluation expenditures are capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount the Company carries out an impairment test at the cash generating unit or group of cash generating units level in the year the new information becomes available.

3) Impairment

The assessment of indications of impairment of exploration and evaluation assets and related determination of the net recoverable amount and write-down of the assets, where applicable.

Significant Accounting Estimates and Assumptions

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

1) Estimated Useful Lives of Assets

The estimation of the useful lives of assets has been based on historical and industry experience. Adjustments to useful life are made when considered necessary. Amortization charges are disclosed in Note 4.

2) Share-Based Payments

Equity-settled share-based awards are recognized as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of an option valuation model – Black-Scholes, which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life, and is expensed over the vesting period. Using different input estimates or models produces different option values, which would result in the recognition of a higher or lower expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Restoration, rehabilitation, and environmental obligations

Restoration, rehabilitation and environmental obligations are recognized for the expected obligations related to the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. A restoration, rehabilitation or environmental obligation is recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made with a corresponding cost recognized by increasing the carrying amount of the related long-lived asset. The restoration, rehabilitation or environmental cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated future value. As at May 31, 2014, the Company has no known restoration, rehabilitation or environmental obligations.

New Accounting Standards Adopted

The Company has adopted these accounting standards effective March 1, 2013. The adoption of these accounting standards had no significant impact on the consolidated financial statements. These standards are:

- IFRS 7 Financial Instruments Disclosures
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities
- IFRS 13 Fair Value Measurement

Accounting standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for accounting years beginning after January 1, 2014 or later years. None of these are expected to have a significant effect on the financial statements:

IFRS 9 Financial Instruments (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from International Accounting Standards ("IAS") 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at FVTPL; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

Applicable to annual periods beginning on or after January 1, 2018.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Accounting standards, amendments and interpretations not yet effective (cont'd...)

Applicable to annual periods beginning on or after March 1, 2014.

Annual Improvements 2010-2012 Cycle

Makes amendments to the following standards:

- IFRS 2 — Amends the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
- IFRS 8 — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed

Applicable to annual periods beginning on or after July 1, 2014.

VATIC VENTURES CORP.
Notes to the Condensed Consolidated Interim Financial Statements
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4. EQUIPMENT

	Computer equipment	Furniture & fixtures	Total
Cost:			
At February 28, 2013 and 2014	\$ 1,770	\$ 8,068	\$ 9,838
Amortization:			
At February 28, 2013	694	2,920	3,614
Charges for the year	243	1,030	1,273
At February 28, 2014	\$ 937	\$ 3,950	\$ 4,887
Net book value:			
At February 28, 2014	\$ 833	\$ 4,118	\$ 4,951
Cost:			
At February 28, 2014	\$ 1,770	\$ 8,068	\$ 9,838
Amortization:			
At February 28, 2014	937	3,950	4,887
Charges for the period	94	206	300
At May 31, 2014	\$ 1,031	\$ 4,156	\$ 5,187
Net book value:			
At May 31, 2014	\$ 739	\$ 3,912	\$ 4,651

VATIC VENTURES CORP.
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5. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition and exploration costs on its mineral properties.

	Canada		
	Brookmere Property		Total
Balance of costs			
Total acquisition costs	\$	145,200	\$ 145,200
Total deferred exploration costs		272,065	272,065
Balance, February 28, 2013	\$	417,265	\$ 417,265
Additions			
Exploration costs			
Field work	\$	6,500	\$ 6,500
Total exploration costs		6,500	6,500
Total acquisition costs		145,200	145,200
Total deferred exploration costs		278,565	278,565
Write-down of exploration and evaluation assets		(230,000)	(230,000)
Balance, February 28, 2014	\$	193,765	\$ 193,765

	Canada		
	Brookmere Property		Total
Balance of costs			
Total acquisition costs		145,200	\$ 145,200
Total deferred exploration costs		278,565	278,565
Write-down of exploration and evaluation assets		(230,000)	(230,000)
Balance, February 28, 2014	\$	193,765	\$ 193,765
Total acquisition costs		145,200	145,200
Total deferred exploration costs		278,565	278,565
Write-down of exploration and evaluation assets		(230,000)	(230,000)
Balance, May 31, 2014	\$	193,765	\$ 193,765

BROOKMERE PROPERTY

On May 17, 2010 and further amended on January 14, 2011, the Company entered into a mineral property option agreement (the "Agreement") with Eastland Management Ltd. ("Eastland"). Pursuant to the terms of the Agreement, the Company has the option to acquire a 100% undivided interest in 14 claims (the "Brookmere Property") located southwest of Merritt, British Columbia, Canada.

VATIC VENTURES CORP.
Notes to the Condensed Consolidated Interim Financial Statements
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5. EXPLORATION AND EVALUATION ASSETS (cont'd...)

BROOKMERE PROPERTY (cont'd...)

To acquire a 100% undivided interest in the Brookemere property and to exercise the option, the Company is to pay Eastland:

- 1) \$15,000 cash (paid) upon execution of the agreement.
- 2) Issue 83,750 shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) (issued and valued at \$67,000) of the Company upon issuance of the Final Exchange Bulletin.
- 3) Issue 25,000 shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) (issued and valued at \$16,000) of the Company on or before the first year anniversary of the bulletin.
- 4) Issue 37,500 shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) (issued and valued at \$25,500) of the Company on or before the second year anniversary of the bulletin.

Upon the commencement of commercial production, the Company shall pay Eastland a 1.5% Net Smelter Returns Royalty. Upon execution of the agreement and the Company receiving the Geological Report, the Company shall pay \$15,000 (paid) to Eastland, which amount shall be non-refundable in the event the agreement is terminated.

Rider Capital Corp. received 8,375 shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) as a finder's fee in connection with the transaction (common shares were issued and valued at \$6,700).

On February 13, 2013, the Company entered into an option agreement with Quadro Resources Corp. ("Quadro"). Quadro is related to the Company through common directors. The Company granted an exclusive right and option to Quadro to acquire, subject to the terms and conditions of this option agreement, a 51% interest in the property subject to a 1.5% Net Smelter Return royalty in favor of the Underlying Vendor. On March 7, 2014, the Company amended the option agreement in respect to the mineral property.

Pursuant to the terms of the amending agreement, Quadro has to complete the following within the time limit as follows:

- a. \$110,000 of exploration expenditures by March 31, 2015;
- b. a further \$250,000 of exploration expenditures by March 31, 2016; and
- c. a further \$500,000 of exploration expenditures by March 31, 2017.

As at February 28, 2014, the Company dropped 8 of the 14 claims that comprise the Brookmere Property, and the Company recorded \$230,000 as an impairment charge to write-off part of the property.

LA SILLA WEST PROPERTY, SINALOA, MEXICO

The Company entered into an initial mineral property option agreement with K.J. Gold Canada Ltd. ("K.J. Gold") and its wholly owned Mexican subsidiary on April 6, 2011. The agreement ("Option Agreement") was finalized on November 30, 2011 and approved by the Exchange on December 13, 2011. The Company can acquire an undivided 100% interest in certain mineral claims known as the La Silla West property (the "La Silla West Property") located in Sinaloa, Mexico.

VATIC VENTURES CORP.
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5. EXPLORATION AND EVALUATION ASSETS (cont'd...)

LA SILLA WEST PROPERTY, SINALOA, MEXICO (cont'd...)

In order for the Company to exercise its option (the "Option") and earn an undivided 100% right, title and interest from the optionor (the "Optionor"), the Company had to:

- 1) upon execution of the Option Agreement, pay the optionor \$15,000 cash (paid);
- 2) on approval by the Exchange, issue 125,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) (issued and valued at \$105,000) and pay \$75,000 cash (paid) to the Optionor;
- 3) on or before the first anniversary date of the Option Agreement, pay the optionor an additional \$75,000 (paid) cash and issue 125,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) (issued and valued at \$85,000);
- 4) on or before the second anniversary date of the Option Agreement, pay the optionor an additional \$75,000 cash and issue 125,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)). The Company would have acquired a 50% interest in the property;
- 5) on or before the third anniversary date of the Option Agreement, pay the optionor an additional \$75,000 cash and issue 125,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)). The Company would have acquired a 75% interest in the property.
- 6) on or before the fourth anniversary date of the Option Agreement, pay the optionor an additional \$75,000 cash and issue 125,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)). The Company would have acquired a 100% interest in the property.

Upon the commencement of commercial production, the Company was to pay K.J. Gold a 2.0% Net Smelter Returns Royalty (the "NSR").

The Company would have acquired a 50% interest in the property once the first 375,000 shares of the Company (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) were issued and \$225,000 is paid. After the acquisition of the 50% interest, the Company had the choice to enter into a joint venture with the optionor with respect to the joint development of the property rather than pursue the acquisition of a further interest.

The Company had to pay a Finder's fee of \$26,250 and issue 46,875 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) to the finder in consideration for the finder introducing K.J. Gold to the Company:

- Cash payment of \$7,500 (paid) and issue 12,500 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) (issued and valued at \$10,500) on the closing date;
- Cash payment of \$5,625 (outstanding) and issue 9,766 (issued and valued at \$6,641) common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) on the one year anniversary of the closing date;
- Cash payment of \$5,625 (outstanding) and issue 9,375 (outstanding) common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) on the two year anniversary of the closing date;

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5. EXPLORATION AND EVALUATION ASSETS (cont'd...)

LA SILLA WEST PROPERTY, SINALOA, MEXICO (cont'd...)

- Cash payment of \$3,750 and issue 8,984 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) on the three year anniversary of the closing date; and
- Cash payment of \$3,750 and issue 6,250 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) on the four year anniversary of the closing date.

As at February 28, 2013, the Company questioned the viability of La Silla West Property and recorded \$445,837 as an impairment charge to write-off the property.

On November 19, 2013 and amended on June 7, 2014, the option agreement for La Silla West Property was terminated. In consideration of termination, the Company had to pay directly to K.J. Gold the total sum of \$32,000 in the following three installments:

- Cash payments of \$12,000 by November 11, 2013 (paid);
- Cash payments of \$20,000 (paid \$16,000) by June 7, 2014;

LA SILLA PROPERTY, SINALOA, MEXICO

On April 16, 2012, the Company entered into an agreement (the "Option Agreement") with Minera Meridian Minerals S.R.L. de C.V. ("Minera Meridian") to acquire the right to earn an undivided 100% interest in mineral claims located in Sinaloa, Mexico. Under the terms of the Option agreement, the Company was required to issue common shares and make the cash payments according to the following schedule, with value added tax of 16% (or whatever the rate may be at the time of each payment):

- 375,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) (issued and valued at \$240,000) of the Company and a \$100,000 cash payment (paid) to Minera Meridian on the closing date;
- 187,500 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) of the Company and a \$100,000 cash payment to Minera Meridian on the first anniversary of the closing date;
- 125,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) of the Company and a \$100,000 cash payment to Minera Meridian on the second anniversary of the closing date;
- 125,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) of the Company and a \$100,000 cash payment to Minera Meridian on the third anniversary of the closing date.

The Company would have acquired a 70% interest in the property after fulfilling the above payments. The Company would have had to make the final payment of 375,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) and \$750,000 to Minera Meridian to acquire the remaining 30% interest.

Additionally, with the first payment to Minera Meridian, the Company also issued 60,000 common shares (after giving retroactive effect to the 8-for-1 share consolidation effective September 23, 2013 (Note 8)) valued at \$38,400 and paid \$16,000 for value added tax of 16%.

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5. EXPLORATION AND EVALUATION ASSETS (cont'd...)

LA SILLA PROPERTY, SINALOA, MEXICO (cont'd...)

As at February 28, 2013, the Company questioned the viability of the La Silla property and recorded \$504,432 as an impairment charge to write-off the property.

On June 28, 2013, the Company terminated its option agreement with Minera Meridian Minerales S.R.L. de C.V. The Company has no further mining properties in Mexico.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May-31-14	February-28-14
Accounts payable	\$319,385	\$293,775
Accrued liabilities	22,500	48,341
	<u>\$341,885</u>	<u>\$342,116</u>

7. LOANS PAYABLE

During the year ended February 28, 2013, the Company obtained loans from 3 arms-length parties, Quarry Bay Equity, Jacques Martel and Coventry Partners Inc.

As at February 28, 2014, the loans payable consisted of a \$61,455 loan from Coventry Partners Inc. ("Coventry"), and a \$37,300 loan from Jacques Martel. The Company also accrued \$18,637 interest on the loans for an aggregate balance of \$117,392. All the loans are unsecured, due on demand and bear an annual interest rate of 12%.

As at May 31, 2014, the loans payable consisted of a \$61,455 loan disclosed above from Quarry and a \$37,300 loan from Jacques Martel. The Company also accrued \$22,098 interest on the loans for an aggregate balance of \$120,853. All the loans are unsecured, due on demand and bear an annual interest rate of 12%.

Principal	Additional principal	Accrued interest expenses	Payment	Loan balance at May 31, 2014
117,455	-	15,835	(56,000)	77,290
34,800	2,500	6,263	-	43,563
<u>\$ 152,255</u>	<u>\$ 2,500</u>	<u>\$ 22,098</u>	<u>\$ (56,000)</u>	<u>\$ 120,853</u>

Principal	Additional principal	Accrued interest expenses	Payment	Interest forgiven	Loan balance at February 28, 2014
\$ 32,500	\$ -	\$ 3,717	\$ (32,500)	\$ (3,717)	\$ -
117,455	-	13,622	(56,000)	-	75,077
34,800	2,500	5,015	-	-	42,315
<u>\$ 184,755</u>	<u>\$ 2,500</u>	<u>\$ 22,354</u>	<u>\$ (88,500)</u>	<u>\$</u>	<u>117,392</u>

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8. SHARE CAPITAL

Authorized: unlimited common shares without par value

On September 23, 2013, the Company completed a share consolidation in which one (1) post-consolidated common share replaced eight (8) pre-consolidated common shares. All information relating to basic and diluted loss per share, the weighted average number of common shares outstanding, the issued and outstanding common shares, common shares issued, share options, warrants, and commitments to exploration and evaluation assets (Note 5) have been adjusted retroactively to reflect the impact of the share consolidation in these consolidated financial statements.

During the three months ended May 31, 2014:

During the three months ended May 31, 2014, the Company received \$76,000 for the non flow-through shares to be subsequently issued, and paid \$10,500 as prepaid Finder's fees.

During the year ended February 28, 2014:

On October 22, 2013, the Company closed the first tranche of a non-brokered private placement of 4,808,334 units at a price of \$0.06 per unit for total proceeds of \$288,500. Each unit will be issued as a non flow-through unit consisting of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.10 per share for a period of 36 months following the closing date.

A finder's fee of \$8,700 in cash and 145,000 agents' warrants with a fair value of \$12,587 in connection with the private placement closed on October 22, 2013. The fair value of the warrants was calculated using a risk free rate of 1.35%, and expected life of 3 years, a volatility of 232% and an expected dividend rate of 0.00%.

On January 21, 2014, the Company closed the second tranche of a non-brokered private placement of 416,666 units at a price of \$0.06 per unit for total proceeds of \$25,000. Each unit will be issued as a non flow-through unit consisting of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.10 per share for a period of 36 months following the closing date.

A finder's fee of \$1,500 in cash and 25,000 agents' warrants with a fair value of \$2,405 in connection with the private placement closed on January 21, 2014. The fair value of the warrants was calculated using a risk free rate of 1.24%, and expected life of 3 years, a volatility of 226% and an expected dividend rate of 0.00%.

On February 28, 2014, the Company closed the first tranche of a non-brokered private placement of 733,332 units at a price of \$0.06 per unit for total proceeds of \$44,000. Each unit will be issued as a non flow-through unit consisting of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.10 per share for a period of 36 months following the closing date.

A finder's fee of \$2,400 in cash and 40,000 agents' warrants with a value of \$2,555 in connection with the private placement closed on February 25, 2014. The fair value of the warrants was calculated using a risk free rate of 1.18%, and expected life of 3 years, a volatility of 192% and an expected dividend rate of 0.00%.

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8. SHARE CAPITAL (cont'd...)

Share options

The Company adopted a share option plan (the "Share Option Plan") under which it may grant options to directors, officers, and technical consultants for up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of an option may not be less than the discounted market price. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

For share options granted to employees, officers, directors, and consultants, the Company recognizes as an expense, the estimated fair value of the share options granted. The fair value of each share option granted was estimated on the date of grant using the Black-Scholes option-pricing model.

A summary of share option transactions are as follows:

	Number of Options ⁽¹⁾	Weighted Average Exercise Price ⁽¹⁾	Weighted Average Number of Years to Expiry
Balance, February 28, 2013	160,000	0.96	2.93
Expired	(25,000)		
Balance, February 28, 2014 and May 31, 2014	135,000	\$ 0.80	2.14

As at May 31, 2014, the following incentive share options are outstanding and exercisable:

Weighted average exercise price ⁽¹⁾	Weighted average contractual life (years)	Number of Options outstanding ⁽¹⁾	Number of Options exercisable ⁽¹⁾	Expiry date
\$ 0.80	0.11	43,750	43,750	July 9, 2014 ⁽²⁾
\$ 0.80	3.11	91,250	91,250	July 9, 2017
\$ 0.80	2.14	135,000	135,000	

⁽¹⁾ The number of options and the exercise price per share has been retroactively adjusted to reflect the 8-for-1 share consolidation effective September 23, 2013.

⁽²⁾ Subsequently expired

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8. SHARE CAPITAL (cont'd...)

Warrants

Changes to the balance of warrants outstanding are as follows:

	Warrants outstanding (1)	Weighted average exercise price (1)	Weighted average number of years to expiry
Balance, February 28, 2013	625,913	\$ 1.84	1.22
Granted - private placement	5,958,333	0.10	
Granted - Finders warrants	210,000	0.06	
Expired	(231,250)	2.40	
Balance, February 28, 2014 and May 31, 2014	6,562,996	\$ 0.18	2.34

As at May 31, 2014, the following warrants are outstanding and exercisable:

Weighted Average Exercise Price (1)	Weighted Average Life (Years)	Number of warrants outstanding and exercisable (1)	Expiry date
\$ 1.60	0.50	293,881	November 28, 2014
1.20	0.62	100,781	January 14, 2015
0.10	2.39	4,808,334	October 18, 2016
0.06	2.39	145,000	October 18, 2016
0.10	2.65	416,666	January 21, 2017
0.06	2.65	25,000	January 21, 2017
0.10	2.75	733,333	February 28, 2017
0.06	2.75	40,000	February 28, 2017
\$ 0.18	2.34	6,562,996	

(1) The number of options and the exercise price per share has been retroactively adjusted to reflect the 8-for-1 share consolidation effective September 23, 2013.

Share-based payments

There is no share-based payments transactions during the three months ended May 31, 2014.

During the year ended February 28, 2014, 25,000 options exercisable at \$1.60 per share expired unexercised. The Company reversed the fair value of expired options of \$21,675 to deficit.

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9. CAPITAL DISCLOSURE

The Company considers its capital structure to include the net residual equity of all assets, less liabilities. Capital is comprised of the Company's equity and any debt that it may issue. The Company's objectives when managing capital are to (i) maintain sufficient working capital to meet current financial obligations and continue as a going concern; (ii) maintain a capital structure to allow the Company to raise equity funding to finance its capital expenditures and acquisition activities; (iii) maintain creditworthiness and maximize returns for shareholders over the long term; (iv) maintain capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic circumstances. The capital for expansion was mostly from proceeds from the issuance of common shares. The net proceeds raised will be used to fund the Company's working capital and exploration activities.

10. FINANCIAL INSTRUMENTS AND RISKS

Fair values

Under IFRS, a three-level hierarchy that reflects the significance of inputs used in making fair value adjustments is required. The three levels of the fair value hierarchy are as follows:

- a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- b) Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- c) Level 3 – Inputs for assets or liabilities that are not based on observable market data.

The following table outlines the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy described above. Assets and liabilities are classified in entirety based on the lowest level of input that is significant to the fair value measurement.

Assets	As at May 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash	\$ 173	\$ -	\$ -	\$ 173
Total	\$ 173	\$ -	\$ -	\$ 173

Assets	As at February 28, 2014			
	Level 1	Level 2	Level 3	Total
Cash	\$ 4,139	\$ -	\$ -	\$ 4,139
Total	\$ 4,139	\$ -	\$ -	\$ 4,139

Financial Instrument Risks

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

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10. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

Financial Instrument Risks (cont'd...)

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and cash equivalents and receivables.

The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of GST/HST receivable due from federal government agencies.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. At May 31, 2014, the Company had cash of \$173 (February 28, 2014 – \$4,139) to settle current liabilities of \$595,833 (February 28, 2014 - \$559,437). All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

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.

Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

There are some expenses for the Company denominated in US dollars. The Company may become exposed to currency fluctuations on mineral exploration and evaluation expenditures which are denominated in US dollars. These potential currency risks could have a significant impact on the Company.

As at May 31, 2014, the Company was exposed to currency risk through the following monetary assets and liabilities in US dollars:

Accounts payable and accrued liabilities	\$	(52,628)
Foreign exchange rate at May 31, 2014 - USD		1.0842

Based on the net exposures at May 31, 2014, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would not have a significant impact on the Company's net earnings (loss).

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11. RELATED PARTY TRANSACTIONS

The amounts due to related parties are amounts due to officers and directors of the Company. The balances are unsecured, non-interest bearing and have no specific terms for repayment. Accordingly, the fair value cannot readily be determined. These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Due to related parties		
	May 31, 2014	February 28, 2014
President and CEO	\$ 59,425	\$ 33,959
CFO	63,270	55,570
Corporate secretary	10,400	10,400
Total	\$ 133,095	\$ 99,929

During the three months ended May 31, 2014 and 2013, the Company paid or accrued management fees to its officers and directors as follows:

	Three months ended	
	May 31, 2014	May 31, 2013
President and CEO	\$ 24,000	\$ 24,000
CFO	12,000	18,000
Corporate secretary	4,500	2,250
Total	\$ 40,500	\$ 44,250

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The non-cash financing activities during the three months ended May 31, 2014 and 2013 are as follows:

	May 31, 2014	May 31, 2013
Non-cash financing activities		
Intrest accrued for loans payable	\$ 3,461	\$ 8,130

13. SEGMENTED INFORMATION

The Company's business is considered to be in one segment, being mineral property acquisition, exploration and development in Canada.

14. COMMITMENTS

The Company has a contract with the Company's secretary, CFO and CEO for management services. The CEO's monthly fee was \$8,000 for the period from January 2012; the CFO's monthly fee was \$3,000 for the period from August 2012 to December 2012, and increased to \$6,000 from January 2013, and decreased to \$4,000 from January 2014; and the secretary's monthly fee was \$1,500 for the period from March 10, 2013. The Company may at any time after the Initial Term (one year), terminate this Agreement by giving one month written notice.

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15. SUBSEQUENT EVENTS

For the subscription received of \$76,000, the Company will issue 1,266,666 shares at \$0.06 per share for proceeds of \$76,000 received in May 2014.

On July 9, 2014, 43,750 share options exercisable at \$0.11 per share expired unexercised.