



**Interim Consolidated Financial Statements**  
**Three Months Ended June 30, 2013 and 2012**

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**NOTICE TO READER**

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 interim condensed consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these consolidated 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.

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# HORNBY BAY MINERAL EXPLORATION LTD.

Interim Consolidated Statements of Financial Position  
(Expressed In Canadian Dollars)

As at	June 30, 2013 \$	March 31, 2013 \$
<b>Assets</b>		
<b>Current</b>		
Cash	29,233	4,743
Amounts receivable (Note 4)	24,498	23,451
Prepaid expenses (Note 5)	455,090	371,395
<b>Total Assets</b>	<b>508,821</b>	<b>399,589</b>
<b>Liabilities and Shareholders' Deficiency</b>		
<b>Current Liabilities</b>		
Accounts payable and accruals (Notes 11, 12 and 13)	719,645	762,078
Shareholder's loan (Note 12)	402,104	208,618
Provision for environmental remediation (Note 7)	86,278	86,278
Premium liability on flow-through shares (Note 13(b))	20,200	-
<b>Total Current Liabilities</b>	<b>1,228,227</b>	<b>1,056,974</b>
<b>Debenture (Note 12)</b>	<b>368,900</b>	<b>352,625</b>
<b>Total Liabilities</b>	<b>1,597,127</b>	<b>1,409,599</b>
<b>Shareholders' Deficiency</b>		
Capital stock (Note 8)	38,915,423	38,858,623
Share-based payments reserve (Note 9)	353,643	330,643
Deficit	(40,357,372)	(40,199,276)
<b>Total Shareholders' Deficiency</b>	<b>(1,088,306)</b>	<b>(1,010,010)</b>
<b>Total Liabilities and Shareholders' Deficiency</b>	<b>508,821</b>	<b>399,589</b>

GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 6, 12 and 13)

SUBSEQUENT EVENTS (Note 15)

APPROVED ON BEHALF OF THE BOARD:

Signed "Chris Irwin" \_\_\_\_\_, Director

Signed "Maurice Colson" \_\_\_\_\_, Director

**HORNBY BAY MINERAL EXPLORATION LTD.**  
**Interim Consolidated Statements of Operations and Comprehensive Loss**  
**(Expressed In Canadian Dollars)**  
**(Unaudited)**

For the three months ended June 30,	2013	2012
	\$	\$
<b>Expenditures</b>		
<b>Exploration and evaluation expenses</b>		
Technical consulting	62,842	27,204
Program planning and reports	32,366	14,739
Airborne geophysics	-	1,417
Camp and support	5,330	-
Licences and permits	1,395	270
<b>Total exploration and evaluation expenses</b>	<u>101,933</u>	<u>43,630</u>
<b>General and administration expenses</b>		
Professional fees	32,172	19,478
Shareholders' information	5,177	6,578
Travel and promotion	-	3,905
Office and general	2,449	2,455
Interest and accretion on debenture	16,275	-
Interest and bank charges	90	70
<b>Total general and administration expenses</b>	<u>56,163</u>	<u>32,486</u>
<b>Net loss and comprehensive loss for the period</b>	<u>(158,096)</u>	<u>(76,116)</u>
<b>Loss per share – basic and diluted</b>	<u>(0.003)</u>	<u>(0.001)</u>
<b>Weighted average number of common shares outstanding</b>	<u>56,895,295</u>	<u>56,785,405</u>

# HORNBY BAY MINERAL EXPLORATION LTD.

## Interim consolidated Statements of Cash Flows

(Expressed In Canadian Dollars)

(Unaudited)

For the three months ended June 30,	2013 \$	2012 \$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net income (loss) for the period	(158,096)	(76,116)
Adjust for: operating items not involving cash		
Accrued interest and accretion on debenture	16,275	-
Change in non-cash working capital		
Amounts receivable	(1,048)	(13)
Prepaid expenses	(83,695)	604
Accounts payable and accruals	(42,432)	(86,494)
	<b>(268,996)</b>	<b>(162,019)</b>
<b>Financing activities</b>		
Proceeds on issuance of flow-through common shares	100,000	-
Shareholder's loan	193,486	186,255
	<b>293,486</b>	<b>186,255</b>
<b>Increase (decrease) in cash</b>	<b>24,490</b>	<b>24,236</b>
<b>Cash at beginning of period</b>	<b>4,743</b>	<b>5,458</b>
<b>Cash at end of period</b>	<b>29,233</b>	<b>29,694</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	-	-
Taxes paid	-	-

See accompanying notes to the consolidated financial statements.

**HORNBY BAY MINERAL EXPLORATION LTD.**  
**Interim Consolidated Statements of Changes in Shareholders' Deficiency**  
**(Expressed In Canadian Dollars)**  
**(Unaudited)**

	Number of Shares	Capital Stock \$	Share-based Payments Reserve \$	Deficit \$	Total Shareholder's Deficiency \$
<b>Balance March 31, 2012</b>	56,785,405	38,858,623	400,579	(40,779,884)	(1,520,682)
Net loss for the period	-	-	-	(76,116)	(76,116)
<b>Balance June 30, 2012</b>	56,785,405	38,858,623	400,579	(40,856,000)	1,596,798
Net income for the period	-	-	-	553,263	553,263
Share-based payments	-	-	33,525	-	33,525
Options expired unexercised	-	-	(46,621)	46,621	-
Warrants expired unexercised	-	-	(56,840)	56,840	-
<b>Balance March 31, 2013</b>	56,785,405	38,858,623	330,643	(40,199,276)	(1,010,010)
Net loss for the period	-	-	-	(158,096)	(158,096)
Issuance of flow-through common shares	1,000,000	100,000	-	-	100,000
Premium on flow-through common shares	-	(20,200)	-	-	(20,200)
Issuance of warrants	-	(23,000)	23,000	-	-
<b>Balance June 30, 2013</b>	57,785,405	38,915,423	353,643	(40,357,372)	(1,088,306)

# **HORNBY BAY MINERAL EXPLORATION LTD.**

## **Notes to the Unaudited Interim Consolidated Financial Statements**

### **For the three months ended June 30, 2013 and 2012**

#### **(Expressed in Canadian dollars)**

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Hornby Bay Mineral Exploration Ltd. (the "Company") currently has interests in exploration and evaluation properties in Canada. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination on whether the Company's interests in exploration and evaluation properties contain mineral reserves which are economically recoverable. The Company is incorporated and domiciled in Ontario, Canada. The registered address of the Company and its principal place of business is 400-365 Bay Street, Toronto, ON M5H 3P5. The Company's shares are listed on the TSX Venture Exchange.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, under which material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern must be disclosed. As at June 30, 2013, the Company had not yet achieved profitable operations and continues to be dependent upon its ability to obtain sufficient working capital from external financing to meet the Company's liabilities as they become payable and ultimately to generate profitable future operations. As at June 30, 2013, the Company had a working capital deficiency of \$719,405. These interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of operations, and at amounts different from those in the accompanying interim consolidated financial statements. Such adjustments could be material.

#### **2. BASIS OF PRESENTATION**

##### **(i) Statement of compliance**

These unaudited condensed interim consolidated financial statements ("interim consolidated financial statements") of Hornby Bay Mineral Exploration Ltd. and its subsidiary, as at and for the three months ended June 30, 2013, have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required for full annual consolidated financial statements. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed.

These interim consolidated financial statements of the Company for the three months ended June 30, 2013 and 2012 were approved and authorized for issue by the Board of Directors on August 28, 2013.

##### **(ii) Significant accounting judgements, estimates and assumptions**

The preparation of interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the interim consolidated financial statements

**HORNBY BAY MINERAL EXPLORATION LTD.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**For the three months ended June 30, 2013 and 2012**  
**(Expressed in Canadian dollars)**

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and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Contingencies

Refer to Note 13.

**(iii) Significant accounting policies**

The significant accounting policies applied in these interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements for the year ended March 31, 2013.

**(iv) Basis of consolidation**

The interim consolidated financial statements of the Company include the accounts of its 100% owned subsidiary, Copper Royalty Mineral Corp. (a company incorporated in British Columbia), and the proportionate accounts of all of its joint ventures (see Note 14). Unrealized gains and losses on transactions between the Company and its subsidiary and joint ventures are eliminated to the extent of the Company's interest in those entities. Amounts reported in the financial statements of jointly controlled entities have been adjusted where necessary to ensure consistency with the accounting policies of the Company.

These interim consolidated financial statements were prepared under the historical cost basis, except for certain assets which are measured at fair value as explained in the accounting policies set out in

# **HORNBY BAY MINERAL EXPLORATION LTD.**

## **Notes to the Unaudited Interim Consolidated Financial Statements**

### **For the three months ended June 30, 2013 and 2012**

#### **(Expressed in Canadian dollars)**

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Note 3 to the Audited Annual Financial Statements for the years ended March 31, 2013 and 2012. In addition, these interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

### **3. FUTURE ACCOUNTING PRONOUNCEMENTS**

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for the Company's accounting periods beginning on April 1, 2013 or later periods. Many of these updates are not applicable or are not consequential to the Company and have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) was issued by the IASB in May 2011 and will replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 – Joint Arrangements (“IFRS 11”) was issued by the IASB in May 2011 and will replace IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 – Fair Value Measurement (“IFRS 13”) was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

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IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

IAS 27 - Separate Financial Statements (“IAS 27”) was amended during 2011 and replaces IAS 27 Consolidated and Separate Financial Statements. IAS 27 has been reissued to reflect the change of including the consolidation guidance in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013.

IAS 28 - Investments in Associates and Joint Ventures (“IAS 28”) was issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 also provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013.

IAS 32 – Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

**4. AMOUNTS RECEIVABLE**

	June 30, 2013	March 31, 2013
HST/GST receivable	\$ 24,498	\$ 23,451

**5. PREPAID EXPENSES**

	June 30, 2013	March 31, 2013
Advances	\$ 367,454	\$ 367,454
Other	87,636	3,941
	\$ 455,090	\$ 371,395

During the year ended March 31, 2011, the Company entered into an agreement with a supplier whereby the Company advanced \$600,000 to be applied against future invoices. As at June 30, 2013, there was a remaining balance of \$367,454 (March 31, 2013 - \$367,454). Other prepaid expenses relate to advances to technical consultants to perform work on the Company’s B.C. property and to perform upgrades to the camp facilities at its Nunavut properties.

**HORNBY BAY MINERAL EXPLORATION LTD.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**For the three months ended June 30, 2013 and 2012**  
**(Expressed in Canadian dollars)**

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**6. EXPLORATION AND EVALUATION PROPERTIES**

(a) **COPPERMINE RIVER, NUNAVUT**

The Company holds a 100% interest in certain mineral leases and mineral claims in the Coppermine River area of Nunavut. The leases are subject to a 1% net smelter royalty and/or a 1% gross diamond royalty to a maximum of \$10,000,000.

(b) **UNAD JV, NUNAVUT**

Pursuant to agreements dated December 31, 2006, the Company holds a 50% interest in certain mineral claims in the Coppermine River area of Nunavut.

(c) **ONTARIO GOLD PROPERTIES**

The Company holds a 100% interest in certain gold leases near Timmins, Ontario.

(d) **B.C. PROPERTIES**

The Company holds a 100% interest in certain Crown grants in the Camsell and Similkameen area of British Columbia and a 5% net smelter return royalty interest on certain parts of the Similkameen Copper Mine.

**7. PROVISION FOR ENVIRONMENTAL REMEDIATION**

During the year ended March 31, 2013, the Company was made aware by Nunavut's Aboriginal Affairs and Northern Development Canada that some upgrades were required to be made to the Company's camp facilities in order to comply with current environmental regulations. The Company hired a consultant to visit the camp and assess the cost of such upgrades. As at March 31, 2013, a provision in the amount of \$86,278 was recognized. These costs were included under camp and support costs on the consolidated statements of operations and comprehensive income (loss) for the year then ended. The provision is measured at the final cost of the remediation work, which was completed subsequent to the period ended June 30, 2013.

**8. CAPITAL STOCK**

(i) As at June 30, 2013 and March 31, 2013, the Company's authorized number of common shares was unlimited without par value.

(ii) **Common Shares**

<b>Issued</b>	<b>Number of Shares</b>	<b>Amount</b>
57,785,405 common shares		
Balance at March 31, 2011, March 31, 2012 and March 31, 2013	<b>56,785,405</b>	<b>\$38,858,623</b>
Issuance of flow-through common shares <sup>1</sup>	<b>1,000,000</b>	<b>100,000</b>
Fair value of warrants issued <sup>1</sup>	-	<b>(23,000)</b>
Premium on flow-through shares	-	<b>(20,200)</b>
Balance at June 30, 2013	<b>57,785,405</b>	<b>\$38,915,423</b>

<sup>1</sup> On June 21, 2013, the Company announced that it had closed a non-brokered private placement (the "Offering") consisting of 1,000,000 flow-through units (the "FT Units") of the Company at a price of \$0.10 per FT Unit, for aggregate gross proceeds of \$100,000. Each FT Unit is comprised of one common share in the capital of the Company and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of \$0.20 per common share for a period of two years following the closing of the Offering. A fair value in the amount of \$23,000 was allocated to the warrants issued in connection with this private placement (Note 9).

**HORNBY BAY MINERAL EXPLORATION LTD.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
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**(Expressed in Canadian dollars)**

**9. SHARE-BASED PAYMENTS RESERVE**

	Number of Options	Weighted Average Exercise Price	Grant Date Value of Options	Number of Warrants	Weighted Average Exercise Price	Grant Date Value of Warrants	Total Value
Balance March 31, 2012	3,149,999	\$ 0.21	\$ 343,739	710,500	\$ 0.16	\$56,840	\$400,579
Granted	2,000,000	0.10	33,525	-	-	-	33,525
Expired	(283,333)	(0.34)	(46,621)	(710,500)	(0.16)	(56,840)	(103,461)
Balance March 31, 2013	4,866,666	\$ 0.16	\$ 330,643	-	\$ -	\$ -	\$330,643
Issued	-	-	-	1,000,000	0.20	23,000	23,000
Balance June 30, 2013	4,866,666	\$ 0.16	\$ 330,643	1,000,000	\$ 0.20	\$ 23,000	\$353,643

**Warrants**

Pursuant to the issuance of 8,346,820 flow-through common shares at \$0.16 per share in connection with a rights offering completed in September 2010, the Company issued 710,500 broker warrants pursuant to standby commitments. Each broker warrant entitles the holder to acquire one common share of the Company at a price of \$0.16 for two years. The grant date fair value of the warrants was estimated to be \$56,840, using the Black-Scholes option pricing model assuming a risk-free interest rate of 2% on the date of issue, an expected life of two years, an expected volatility of 150% and expected dividends of \$Nil. The warrants expired on September 9, 2012.

Pursuant to the issuance of FT Units on June 21, 2013 (Note 8(ii)<sup>1</sup>), the Company issued 1,000,000 common share purchase warrants. Each warrant is exercisable to purchase one common share at a price of \$0.20 per common share for a period of two years following the closing of the Offering. The grant date fair value of the warrants was estimated to be \$23,000, using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.23% on the date of issue, an expected life of two years, an expected volatility of 172% and expected dividends of \$Nil.

**Options**

The Company's stock option plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed five years at exercise prices not less than the closing sale price of the shares on the TSX Venture Exchange on the trading day immediately preceding the date the options are granted, and are not transferrable. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued and outstanding common shares.

Options to purchase common shares outstanding at June 30, 2013 carry exercise prices and remaining terms to maturity as follows:

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Number of options	Options exercisable	Exercise price	Fair value at grant date	Expiry date	Remaining contractual life outstanding
#	#	\$	\$		(Years)
66,666	66,666	0.30	6,000	16-Jun-14	0.96
2,500,000	2,500,000	0.20	261,818	11-Aug-15	2.12
200,000	200,000	0.20	18,300	27-Oct-15	2.33
100,000	100,000	0.20	11,000	9-Nov-15	2.36
2,000,000	2,000,000	0.10	33,525	26-Oct-15	2.32
4,866,666	4,866,666	0.16	330,643		2.20

The fair values of options granted have been estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions used in the pricing model are as follows:

Expiry Date	Grant date share price	Exercise price	Expected volatility	Expected option life	Expected dividend yield	Risk-free interest rate
	\$	\$	%	(Years)	%	%
16-Jun-14	0.30	0.30	65	5	0	2.0
11-Aug-15	0.20	0.20	109	5	0	2.0
26-Oct-15	0.03	0.10	129	3	0	1.2
27-Oct-15	0.20	0.20	116	5	0	2.1
9-Nov-15	0.20	0.20	135	5	0	2.2

## 10. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and evaluation of its properties. The capital of the Company consists of shareholder's loan, debenture, capital stock and share-based payments reserve. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Several properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the periods ended June 30, 2013 or 2012. The Company and its subsidiary are not subject to externally imposed capital requirements.

## 11. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement, and the bases for recognition of income and expenses) for each class of financial asset, and financial liability are disclosed in Note 3 to the audited annual consolidated financial statements for the years ended March 31, 2013 and 2012..

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Financial assets and financial liabilities as at June 30, 2013, and March 31, 2013 were as follows:

June 30, 2013	Loans and receivables	Other liabilities	Total
Cash	\$ 29,233	\$ -	\$ 29,233
Accounts payable and accruals	-	(719,645)	(719,645)
Shareholder's loan	-	(402,104)	(402,104)
Debenture	-	(368,900)	(368,900)
	\$ 29,233	\$ (1,490,649)	\$ (1,461,416)

March 31, 2013	Loans and receivables	Other liabilities	Total
Cash	\$ 4,743	\$ -	\$ 4,743
Accounts payable and accruals	-	(762,078)	(762,078)
Shareholder's loan	-	(208,618)	(208,618)
Debenture	-	(352,625)	(352,625)
	\$ 4,743	\$ (1,323,321)	\$ (1,318,578)

**Financial Instrument Risk Factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies or procedures during the three months ended June 30, 2013 and the year ended March 31, 2013.

**Credit risk**

The Company's credit risk is primarily attributable to cash. The Company has no significant concentration of credit risk arising from operations. Cash consists of bank deposits which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote.

**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 June 30, 2013, the Company had cash and an amounts receivable balance of \$53,731 (March 31, 2013 - \$28,194) to settle current liabilities of \$1,228,227 (March 31, 2013 - \$1,056,974). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms, except for the provision described in Note 7 and the debenture described in Note 12. The shareholder's loan is described in Note 12.

**Market risk**

**(a) Interest rate risk**

The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management considers interest rate risk to be minimal given that, as at June 30, 2013 and 2012, no amounts were held in short-term deposit certificates.

**(b) Foreign currency risk**

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

**(c) Price risk**

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices

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will impact the economics of development of the Company's mineral exploration properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not currently a revenue producing entity.

**(d) Fair value**

Fair value estimates are made at the statement of financial position date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying amounts for cash, amounts receivable, and accounts payable and accruals on the statement of financial position approximate fair value because of the limited term of the instruments. It is not possible to determine if the shareholder's loan or the debenture are at fair value as there is no comparable market value for such loans.

At June 30, 2013 and 2012, the Company had no financial instruments that are carried at fair value.

**12. RELATED PARTY TRANSACTIONS**

During the three months ended June 30, 2013 and 2012, the Company entered into the following transactions with related parties that are not subsidiaries of the Company:

	<u>Amounts owed to related parties</u>	
	<u>30-Jun-13</u>	<u>31-Mar-13</u>
Officers and directors	\$ 42,212	\$ 39,980
Shareholder's loan	\$ 402,104	\$ 208,618
Debenture	\$ 368,900	\$ 352,625

The amount owing to officers and directors relates to legal services provided by a director of the Company prior to and during the three months ended June 30, 2013 and 2012. During the period ended June 30, 2013, professional fees paid to this officer and director totaled \$Nil (2012 - \$16,509).

On November 1, 2012, the shareholder's loan, which was previously due on demand and non-interest bearing, was cancelled and a secured debenture for principal of \$1,500,000 was issued in its place. The debenture bears interest at 3% per annum which is payable at maturity and matures on November 1, 2017. The Company may extend the maturity date to November 1, 2022 with 30 days notice. Advances to the Company and payments made on its behalf by the shareholder in excess of the \$1,500,000 principal loan amount are included on the statement of financial position as shareholder's loan. The shareholder's loan continues to be unsecured, due on demand and non-interest bearing. As security for the debenture, the Company has granted a security interest to the holder over its 5% net smelter return royalty on certain parts of the Similkameen Copper Mine located in British Columbia.

The fair value of the debenture was estimated at \$325,500 on the date of issuance using an interest rate of 20%. The debenture will be accreted to its maturity value using the effective interest rate method at an annual interest rate of 20%. Interest and accretion on the debenture of \$16,275 was recorded during the period ended June 30, 2013.

*Compensation of key management personnel of the Company*

The remuneration of directors and other members of key management personnel during the periods ended June 30, 2013 and 2012 was as follows:

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	Period ended June 30,	
	2013	2012
	\$	\$
Salaries including bonuses	5,000	5,000

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

**13. COMMITMENTS AND CONTINGENCIES**

a) Pursuant to the issuance of 8,346,820 flow-through shares on September 9, 2010, the Company has renounced \$1,318,421 of qualified exploration expenditures with an effective date of December 31, 2010. The Company was required to spend these flow-through funds by December 31, 2011 but was unable to do so. As of December 31, 2011, the amount remaining to be spent was approximately \$882,000. The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments. As a result of this indemnification, the Company recorded a provision of \$580,537 during the period ended March 31, 2012. No adjustments have been made to the provision as at and during the period ended June 30, 2013.

b) Pursuant to the issuance of 1,000,000 flow-through shares on June 21, 2013, the Company will renounce \$100,000 of qualified exploration expenditures with an effective date of December 31, 2013. The Company is required to spend these flow-through funds by December 31, 2014. A premium liability on flow-through shares in the amount of \$20,200 has been recognized at June 30, 2013, which represents the premium between the quoted market price and the price paid by investors for the flow-through shares. When the related flow-through expenditures are renounced, a deferred tax liability will be set up and the premium liability will be reversed, with the difference being recognized in the consolidated statement of operations and comprehensive loss.

c) The Company had been named a defendant in legal proceedings brought by a former officer of the Company. The former officer had claimed approximately \$30,000 in settlement of a promissory note and approximately \$170,000 damages for breach of contract.

During the year ended March 31, 2011, the Company paid \$30,000 in settlement of the promissory note that was outstanding. During the year ended March 31, 2013, these legal proceedings were fully and finally settled between the parties without cost.

d) An action had been brought by the Company against a former officer of the Company and his spouse for damages in the amount of \$72,166 for breach of fiduciary duty and conversion. During the year ended March 31, 2013, this action was fully and finally settled between the parties without cost.

e) Environmental Contingencies

The Company's exploration and evaluation activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. A provision for environmental remediation was recognized at March 31, 2013 in the amount of \$86,278. The nature of this provision is disclosed in Note 7.

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**14. INTERESTS IN JOINT VENTURES**

The Company does not have any significant assets, liabilities, revenues, expenses or cash flows from its interests in joint ventures as at June 30, 2013 and March 31, 2013, and for the periods ended June 30, 2013 and 2012.

**15. SUBSEQUENT EVENTS**

- a) Subsequent to the period ended June 30, 2013, a shareholder of the Company advanced \$13,000 to the Company and paid \$7,690 in invoices on the Company's behalf. The terms of the shareholder advance are detailed in Note 12.
- b) On August 23, 2013, 900,000 options to purchase common shares of the Company were granted to directors, officers and consultants of the Company at an exercise price of \$0.12 per share for a period of three years. The shares issuable upon exercise of the options are subject to a four-month hold period from the original date of grant.