(An Exploration Stage Company)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ending

March 31, 2014

and

March 31, 2013

(Unaudited)

(Expressed in Canadian dollars)

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 consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited 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 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.

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KOOTENAY SILVER INC.

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

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Exhibit 1

		March 31, 2014		December 31, 2013
ASSETS				
Current:				
Cash and cash equivalents	$	**1,803,882**	$	2,804,423
Other receivables and advances (Note 8)		**834,248**		846,081
Prepaid expenses		**345,616**		332,344
Marketable securities (Note 4)		**608,149**		382,140
Total current assets		**3,591,895**		4,364,988
Non-current assets:				
Equipment (Note 5)		**243,662**		253,749
Advances and deposits		**101,000**		88,500
Mineral properties (Note 6)		**34,625,828**		33,717,768
	$	**38,562,385**	$	38,425,005
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable and accrued liabilities (Note 11)	$	**392,942**	$	536,435
Total current liabilities		**392,942**		536,435
Equity:				
Share capital (Note 7)		**47,043,736**		47,043,736
Contributed surplus (Note 7)		**17,516,920**		17,243,528
Accumulated other comprehensive loss (Exhibit 4)		**751,421**		(297,672)
Deficit		**(27,142,634)**		(26,101,022)
Total Equity		**38,169,443**		37,888,570
Total liabilities and equity	$	**38,562,385**	$	38,425,005

Subsequent Events (Note 17)

Approved on Behalf of the Board:

"James McDonald"
Director

"Kenneth Berry"
Director

- see accompanying notes -

KOOTENAY SILVER INC.

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

CONSOLIDATED INTERIM STATEMENTS OF LOSS

Exhibit 2

		Three months ended March 31, 2014		Three months ended March 31, 2013
General and Administrative Expenses				
Depreciation (Note 5)	**$**	**16,115**	$	14,188
Office and general (Note 11)		**307,114**		217,417
Management fees (Note 11)		**89,750**		90,300
Share based payments (Note 7)		**273,392**		348,457
Professional fees		**130,658**		73,707
Regulatory and filing fees		**12,779**		11,765
Rent		**28,747**		20,303
Loss before Exploration and Other Items		**858,555**		776,137
Exploration Expenditures				
Mineral property investigation (Note 6)		**101,740**		27,017
		101,740		27,017
Other Items				
Administration income (Note 11)		**-**		(2,780)
Foreign exchange loss		**88,793**		121,737
Finance income		**(7,476)**		(51,420)
		81,317		67,537
Loss for the period		**1,041,612**		870,691
Basic and Diluted Loss per Share (Note 7)	**$**	**(0.017)**	$	(0.015)
Weighted Average Number of Shares Outstanding		**62,808,850**		56,488,850

- see accompanying notes -

KOOTENAY SILVER INC.

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

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

Exhibit 3

		Three months ended March 31, 2014		Three months ended March 31, 2013
Loss for the period	**$**	**1,041,612**	$	870,691
Other comprehensive loss				
Unrealized loss on available-for-sale financial assets arising during the period		**9,991**		105,411
Foreign currency translation differences of foreign operations		**(1,059,084)**		70,021
Total other comprehensive (income)/loss		**(1,049,093)**		175,432
Comprehensive (income)/loss	**$**	**(7,481)**	$	1,046,123

- see accompanying notes -

KOOTENAY SILVER INC.

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

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

Exhibit 4

	Number of Shares		Capital Stock		Contributed Surplus		Accumulated Other Comprehensive Income (Loss)		Deficit		Total Equity
Balance, December 31, 2012	56,488,850	$	42,991,181	$	15,108,951	$	(1,192,817)	$	(21,262,375)	$	35,644,940
Net issuance costs	-		(600)		-		-		-		(600)
Share based payment	-		-		348,457		-		-		348,457
Unrealized loss on available-for-sale financial assets arising during the year	-		-		-		(105,411)		-		(105,411)
Foreign currency translation differences of foreign operations	-		-		-		(70,021)		-		(70,021)
Loss for the three months	-		-		-		-		(870,691)		(870,691)
Balance, March 31, 2013	56,488,850	$	42,990,581	$	15,457,408	$	(1,368,249)	$	(22,133,066)	$	34,946,674
Balance, December 31, 2013	62,808,850	$	47,043,736	$	17,243,528	$	(297,672)	$	(26,101,022)	$	37,888,570
Share based payment	-		-		273,392		-		-		273,392
Unrealized loss on available-for-sale financial assets arising during the year	-		-		-		(9,991)		-		(9,991)
Foreign currency translation differences of foreign operations	-		-		-		1,059,084		-		1,059,084
Loss for the three months	-		-		-		-		(1,041,612)		(1,041,612)
Balance, March 31, 2014	62,808,850	$	47,043,736	$	17,516,920	$	751,421	$	(27,142,634)	$	38,169,443

- see accompanying notes -

KOOTENAY SILVER INC.

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

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Exhibit 5

		Three months ended March 31, 2014		Three months ended March 31, 2013
Cash Flows from Operating Activities				
Net loss for the period	$	(1,041,612)	$	(870,691)
Add items not involving any outlay of cash:				
Share based payment		273,392		348,457
Depreciation		16,115		14,188
		(752,105)		(508,046)
Changes in non-cash working capital balances:				
Other receivable and advances		32,246		(228,115)
Prepaid expenses		(4,188)		(32,725)
Accounts payable and accrued liabilities		(152,449)		(20,925)
		(876,496)		(789,811)
Cash Flows from Financing Activities				
Share issuance costs		-		(600)
		-		(600)
Cash Flows from Investing Activities				
Investment in mineral properties		(491,219)		(1,963,721)
Investment in equipment		-		(10,866)
Receipt of METC refund		212,707		-
Reclamation deposits paid		(12,500)		-
		(291,012)		(1,974,587)
Effect of foreign exchange rate changes on cash		166,967		(194,021)
Decrease in Cash and Cash Equivalents during the period		(1,000,541)		(2,959,019)
Cash and Cash Equivalents, Beginning of the year		2,804,423		6,925,053
Cash and Cash Equivalents, End of the period	$	1,803,882	$	3,966,034

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

- see accompanying notes -

1 Reporting Entity:

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

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

Going Concern

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

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

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

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

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

	March 31, 2014	March 31, 2013
Deficit	**$ 27,142,634**	$ 22,133,066
Working capital	**$ 3,198,953**	$ 5,455,279

2 Basis of Presentation:

Statement of Compliance

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including Interim Financial Reporting (IAS 34).

The policies applied in these consolidated interim financial statements are consistent with the accounting policies disclosed in Notes 2 and 3 of the audited consolidated financial statements for the year ended December 31, 2013. These consolidated interim financial statements should be read in conjunction with the Company's audited consolidated statements for the year ended December 31, 2013.

These consolidated interim financial statements were authorized for issue by the Audit Committee of the Company as authorized by the Board of Directors on May 29, 2014.

Functional and presentation currency

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

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

3 Significant Accounting Policies

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

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

Basis of measurement

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

Consolidation

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

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

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

Critical accounting estimates and judgements

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

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

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

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

(i) Equipment

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

(ii) Exploration and evaluation assets

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

(iii) Decommissioning liabilities

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

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

(iv) Share based payments

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

(v) Taxes

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

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

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

Adoption of new accounting standards

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

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

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

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

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

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

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

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

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

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

Future accounting policy changes issued but not yet in effect

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

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

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

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

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

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

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

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

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

4 Marketable Securities:

Marketable securities are classified as available for sale financial instruments, which are adjusted to market value at the end of the reporting period. Market value as at March 31, 2014 is $608,149 (2013 – $848,922). The Company recorded an unrealized loss of $9,991 (2013 – unrealized loss of $105,411) in comprehensive loss for fair value adjustments to marketable securities.

5 Equipment:

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Total
Cost					
Balance December 31, 2012	**223,000**	**58,374**	**139,288**	**2,828**	**423,490**
Additions	-	8,111	49,010	57,493	114,614
Balance December 31, 2013	**223,000**	**66,485**	**188,298**	**60,321**	**538,104**
Additions	-	-	6,028	-	6,028
Balance March 31, 2014	**223,000**	**66,485**	**194,326**	**60,321**	**544,132**
Accumulated Depreciation					
Balance December 31, 2012	**127,029**	**30,083**	**70,031**	**283**	**227,426**
Depreciation for year	27,434	5,578	18,546	5,371	56,929
Balance December 31, 2013	**154,463**	**35,661**	**88,577**	**5,654**	**284,355**
Depreciation for period	5,108	1,457	6,463	3,087	16,115
Balance March 31, 2014	**159,571**	**37,118**	**95,040**	**8,741**	**300,470**

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Total
Carrying Value December 31, 2013	68,537	30,824	99,721	54,667	253,749
Carrying Value March 31, 2014	**63,429**	**29,367**	**99,286**	**51,580**	**243,662**

6 Mineral Properties:

	Canada Total	Promontorio	Santa Lucia	Sonora Anomalies	Espiritu	Cervantes	Estrella de Oro*	Other	Mexico Total	2014 Total	2013 Total
	$	$	$	$	$	$	$	$	$	$	$
Acquisition Costs											
Balance, beginning	1,304,665	3,537,658	103,974	507,279	-	-	-	101,412	4,250,323	5,554,988	5,442,488
Incurred	35,000	-	-	-	-	-	-	-	-	35,000	112,500
Balance, ending	1,339,665	3,537,658	103,974	507,279	-	-	-	101,412	4,250,323	5,589,988	5,554,988
Exploration Expenditures											
Balance, beginning	6,498,032	25,965,866[1]	1,061,428	3,370,350	1,139,608	127,774	59,175	589,028	32,313,229[1]	38,811,261[1]	30,373,718
Assaying and Lab	900	9,084	-	-	-	-	-	-	9,084	9,984	574,885
Camp Costs	-	46,011	-	4,487	-	-	-	-	50,498	50,498	739,725
Drafting	35,005	18,746	-	300	-	505	-	-	19,551	54,556	212,154
Drilling	-	-	-	-	-		-	-	-	-	4,260,436
Geological mapping	42	28,350	-	200	255	1,257	-	-	30,062	30,104	207,035
Geophysics	-	9,610	-	-	-	-	-	-	9,610	9,610	128,842
Maintenance	7,070	76,386	9,106	18,754	12,853	1,690	-	8,497	127,286	134,356	744,453
Miscellaneous	-	40	-	2,160	-	-	-	12,521	14,721	14,721	78,008
Prospecting	9,000	21,216	1,667	11,015	1,766	4,193	158	13,013	53,028	62,028	447,041
Rock Sampling	-	13,500	4,500	-	-	-	-	-	18,000	18,000	76,476
Metallurgical testing	-	-	-	-	-	-	-	-	-	-	30,578
Incurred	52,017	222,943	15,273	36,916	14,874	7,645	158	34,031	331,840	383,857	7,499,633
Balance, ending	6,550,049	26,188,809	1,076,701	3,407,266	1,154,482	135,419	59,333	623,059	32,645,069	39,195,118	37,873,351
Total property balance	7,889,714	29,726,467	1,180,675	3,914,545	1,154,482	135,419	59,333	724,471	36,895,392	44,785,106	43,428,339
Recovery of costs	(2,818,356)	-	(1,050,598)	(1,158,103)	(1,080,445)	-	-	(177,138)	(3,466,284)	(6,284,640)	(6,071,933)
Option payment received	(84,000)	-	(2,000)	-	-	-	(6,000)	-	(8,000)	(92,000)	(86,000)
Proceeds from sale	(230,000)	-	-	-	-	-	-	-	-	(230,000)	-
Impairment	(3,176,234)	-	-	(269,010)	-	-	-	(107,394)	(376,404)	(3,552,638)	(3,552,638)
Cumulative mineral property costs	1,581,124	29,726,467	128,077	2,487,432	74,037	135,419	53,333	439,939	33,044,704	34,625,828	33,717,768

*Earn-in option agreement

[1]Includes foreign exchange related to translation of foreign operations

6 Mineral Properties (Canada):

	Copley	Kimberley Gold Trend	Jumping Josephine	Nechako Region	Rosetta*	Silver Fox	Other	2014 Total	2013 Total
	$	$	$	$	$	$	$	$	$
Acquisition Costs									
Balance, beginning	91,153	-	107,275	218,445	108,028	32,500	747,264	1,304,665	1,192,165
Incurred	15,000	-	-	20,000	-	-	-	35,000	112,500
Balance, ending	106,153	-	107,275	238,445	108,028	32,500	747,264	1,339,665	1,304,665
Exploration Expenditures									
Balance, beginning	505,047	234,320	865,697	530,007	659,905	441,029	3,262,027	6,498,032	6,037,465
Assaying and Lab	900	-	-	-	-	-	-	900	54,249
Camp Costs	-	-	-	-	-	-	-	-	-
Drafting	1,750	4,750	-	2,100	-	15,415	10,990	35,005	37,390
Drilling	-	-	-	-	-	-	-	-	16,964
Geological mapping	-	-	-	-	-	42	-	42	43,165
Geophysics	-	-	-	-	-	-	-	-	100,493
Maintenance	137	1,926	-	2,073	35	962	1,937	7,070	32,854
Miscellaneous	-	-	-	-	-	-	-	-	7,300
Prospecting	3,000	-	-	3,000	-	3,000	-	9,000	163,676
Rock Sampling	-	-	-	-	-	-	-	-	4,476
Incurred	5,787	6,676	-	7,173	35	19,419	12,927	52,017	460,567
Balance, ending	510,834	240,996	865,697	537,180	659,940	460,448	3,274,954	6,550,049	6,498,032
Total property balance	616,987	240,996	972,972	775,625	767,968	492,948	4,022,218	7,889,714	7,802,697
Recovery of costs	(508,908)	(112,000)	(490,950)	-	(388,031)	-	(1,318,467)	(2,818,356)	(2,605,649)
Option payment received	-	-	-	-	(84,000)	-	-	(84,000)	(84,000)
Proceeds from sale	-	-	(230,000)	-	-	-	-	(230,000)	-
Impairment	-	-	(252,022)	(348,024)	-	-	(2,576,188)	(3,176,234)	(3,176,234)
Cumulative mineral property costs	108,079	128,996	-	427,601	295,937	492,948	127,563	1,581,124	1,936,814

*Earn-in option agreement

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

Promontorio - Sonora State, Mexico

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

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

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

Santa Lucia - Southern Sonora State, Mexico

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

On October 25, 2010, the Company entered into a Letter Agreement, whereby Copper Creek Gold was granted the right to earn 60% interest in the Santa Lucia Property. During the year ended December 31, 2013, the Company received notice of termination from Copper Creek Gold. Prior to termination, the Company received 600,000 common shares (pre 10:1 consolidation) and $30,000 in cash payments.

Estrella de Oro - Sonora State, Mexico

On January 16, 2014, the Company entered into an Option Agreement, whereby Orestone Mining Corp. ("Orestone") was granted the right to earn an undivided 60% interest in two properties, Fer and Male, comprising the Estrella de Oro project. To fulfil its obligations and earn its interest Orestone must issue 200,000 common shares upon the fifth business day following the receipt of regulatory approval, pay an aggregate total of $150,000 in cash to the Company and fund $2,000,000 of exploration expenditures on the Project within a five year period. The Company has received 200,000 shares of Orestone.

6 Mineral Properties *(continued)*:

Sonora Concessions - Northwest Mexico

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

Unless specifically stated otherwise, all Sonora Concessions have been staked by the Company directly.

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

During the three months ended March 31, 2014, the Company disposed of its remaining 40% interest in the Jumping Josephine Property to its joint venture partner Orex in exchange for 1,000,000 common shares of Orex with a fair market value of $230,000. During the year ended December 31, 2013, the Company recorded an impairment totalling $252,022 on its carrying value of the property.

Copley Property – Nechako Plateau, British Columbia

On February 23, 2010, the Company entered into an option agreement whereby it was granted the right to earn a 100% undivided interest in 10 mineral tenures totaling approximately 2,927 hectares collectively named as the Copley Property. Under the agreement the Company must make total cash payments of $80,000; issue an aggregate total of 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. The Company has issued 60,000 shares with a fair value of $54,100 and paid $55,000 under the option agreement. Subsequent to March 31, 2014, the Company issued 30,000 shares under the agreement for settlement of the 4th anniversary payment.

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

Other Properties – Southern British Columbia

On November 24, 2008, the Company entered into an option agreement with Theia Resources Ltd. ("Theia"), whereby the Company granted the right to Theia to earn a 60% undivided interest in the Rosetta Creek Property. Theia has issued 400,000 common shares to the Company per the option agreement. Upon commercial production, Theia will issue an additional 250,000 common shares to the Company. An aggregate of $1,000,000 in exploration expenditures must be expended by Theia on the mineral property within a five year period commencing April 27, 2009. The Company has extended the expenditure commitment for one additional year.

Under the terms of the Kennedy Grubstake Agreement 100,000 shares are issuable on each property and exploration expenditures of $40,000 must be incurred per each. The Company issued 250,000 shares valued at $273,750 relating to Rosetta Property. If production is achieved on a specific property a bonus of 200,000 shares would be paid.

During the year ended December 31, 2011, the Company optioned under grubstake agreements three properties in the Nechako region, namely the Bird, Fox and Alco. During the three months ended March 31, 2014, the Company terminated the option agreements for the Alco and the Bird Properties. Prior to termination the Company issued (excluding the Fox property) 40,000 shares per property with a fair value of $36,600, (aggregate total 80,000 shares with a fair value of $73,200), and cash payments of $35,000 have been paid under each of the option agreements totaling $70,000. The impairment was recorded as at December 31, 2013 totaling $115,402 and $100,818 on its carrying values, respectively.

Under the agreement for the Fox property, the Company must make total cash payments of $80,000; issue an aggregate total of 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. The Company has made cash payments of $55,000, including $20,000 paid during the three months ended March 31, 2014 and issued 40,000 shares with a fair value of $56,600. Subsequent to March 31, 2014, the Company issued 25,000 shares under the agreement for settlement of the 3rd anniversary payment.

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

During the three months ended March 31, 2014, the Company expensed $101,740 (2013 - $27,017) related to other property investigation expense. Once the Company has made its evaluations, the properties will be either be abandoned or acquired under the terms of the Grubstake Agreements.

Title to Mineral Property Interests

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

7 Share Capital and Reserves:

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

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

	Warrants			Options		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, January 1, 2013	**7,048,100**	**$**	**1.30**	**5,199,750**	**$**	**1.11**
Granted	**3,125,000**		**1.08**	**1,952,000**		**0.66**
Expired/Cancelled	**(1,221,500)**		**1.15**	**(1,065,000)**		**1.72**
Outstanding, December 31, 2013	**8,951,600**	**$**	**1.24**	**6,086,750**	**$**	**0.86**
Granted	**-**		**-**	**-**		**-**
Expired/Cancelled	**(1,425,000)**		**1.50**	**-**		**-**
Outstanding, March 31, 2014	**7,526,600**	**$**	**1.19**	**6,086,750**	**$**	**0.86**

Warrants
As at March 31, 2014, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
471,600	1.05	October 25, 2014
2,930,000	1.30	October 25, 2014
1,000,000	1.30	October 30, 2014
3,125,000	1.08	April 25, 2015
7,526,600		

The weighted average remaining life of the outstanding warrants is 0.78 years (2013 – 1.41 years).

The fair value of warrants is estimated using the Black Scholes option-pricing model. Warrants are included in contributed surplus until exercised, at which time they are transferred into share capital. During the three months ended March 31, 2014, unexercised warrants totalling 1,425,000 expired.

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

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

The following assumptions were used for the Black-Scholes valuation of warrants issued during 2013:

	2013
Risk-free interest rate	**0.94%**
Expected life of warrants	**24 months**
Fair value per warrant issued	**$0.22**
Annualized volatility	**67%**
Dividend rate	**0.00%**

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

Options

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

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

Share based payments totalling $273,392 (2013 - $348,457) were expensed during the three months ended March 31, 2014. As at March 31, 2014, 4,580,750 options (2013 – 2,699,750) with a weighted average exercise price of $0.88 per option (2013 - $0.87) were fully vested and exercisable.

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

As at March 31, 2014, the Company had outstanding stock options enabling holders to acquire common share of the Company as follows:

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

The weighted average remaining life of the options is 3.11 years (2013 – 3.04 years).

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

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

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

Earnings per share

The calculation of basic loss per share for the three months ended March 31, 2014 was based on the loss of $1,041,612 (2013 - $870,691) and the weighted average number of common shares outstanding of 62,808,850 (2013 – 56,488,850) respectively. The Company does not have any instruments that would give rise to a dilution effect as of March 31, 2014. The Company has 6,086,750 options and 7,526,600 warrants that are anti-dilutive and thus, not included in diluted loss per share as of March 31, 2014.

8 Receivables:

The Company's receivables are as follows:

	March 31, 2014	March 31, 2013
IVA/GST receivable	**$ 602,573**	$ 693,566
Other receivable	**209,277**	128,168
Advances receivable	**22,398**	8,303
Total	**$ 834,248**	$ 830,037

9 Income Taxes:

As at December 31, 2013, the Company has non capital loss carryforwards of approximately $12.4 million (2012: $11.8 million), which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

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

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

The Company has net operating loss carryforwards of approximately $21 million (2012: $19.6 million), which may be carried forward to apply against future year income for Mexican tax purposes, expiring in the following years:

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

10 Supplemental Disclosure of Cash and Non-Cash Activities:

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

		March 31, 2014		March 31, 2013
Acquisition of shares as proceeds from option of mineral property	**$**	**(6,000)**	$	(62,000)
Shares received as proceeds on sale of mineral property		**(230,000)**		-
Other receivable and advances for mineral property costs		**(25,011)**		20,559
Mineral property costs included in accounts payable		**(3,275)**		979

11 Related Party Transactions and Balances:

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

		March 31, 2014		March 31, 2013
Management fees charged by companies controlled by a director and/or officers	**$**	**125,750**	$	125,750
Consulting, administrative and geological fees charged by a company with common officers		**30,000**		30,000

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

Effective September 1, 2008, the Company entered into an administrative services agreement with Touchstone Capital Corp. a private company indirectly related to two common officers of the Company. Touchstone provides services to the Company including assisting in professional analysis and planning of exploration programs, promotional materials; providing access to secretarial services and providing such other additional instructions and directions as the Company may require. For the three months ended March 31, 2014, the Company incurred expenses of $30,000 (2013 - $30,000) under the administrative services contract.

In addition to the above:

a) Included in marketable securities as at March 31, 2014 is $295,500 (2013 - $669,000) market value of shares received from companies with directors in common.

b) Included in exploration recovery of costs as at March 31, 2014 is $1,141,026 (2013 - $1,121,520) received from joint venture partners who have a common director and a common officer.

c) Included in accounts receivable as at March 31, 2014 is $149,552 (2013 - $58,216) from companies who have common directors or officers.

d) Included in accounts payable as at March 31, 2014 is $29,902 (2013 - $8,679) to companies who have common directors or officers.

e) Included in prepaid expenses is $nil (2013 - $9,678) related to office deposits charged by a company with common directors.

f) The Company incurred $15,000 (2013 - $15,000) for compensation to directors during the three months ended March 31, 2014, which was recorded in accounts payable.

g) The Company incurred $30,000 (2013 - $30,000) for consulting fees to one director during the three months ended March 31, 2014.

h) The Company incurred $132,574 (2013 - $200,160) for share based payment expenses to related parties during the three months ended March 31, 2014.

12 Contingent Liabilities:

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

13 Segmented Information:

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

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

	March 31, 2014	March 31, 2013
Canada:		
Current asset	**$ 2,617,339**	$ 5,252,686
Mineral property	**1,581,124**	2,178,545
Other Non-current asset	**195,513**	138,922
Current liability	**(158,269)**	(309,746)
	$ 4,235,707	$ 7,260,407

	March 31, 2014	March 31, 2013
Mexico:		
Current asset	**$ 974,556**	$ 534,643
Mineral property	**33,044,704**	27,031,608
Other Non-current asset	**149,149**	142,320
Current liability	**(234,673)**	(22,304)
	$ 33,933,736	$ 27,686,267

14 Commitments:

The Company entered into a contract for office rent, which commenced January 1, 2013 and expires December 31, 2015. The Company received a four month rent free period regarding its new office space that ended December 31, 2012. The following table summarizes the Company's total annual obligations under this agreement as at March 31, 2014:

2014	$ 28,521
2015	38,028
	$ 66,549

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

The Company entered into a contract for additional office rent, which commenced August 1, 2013 and expires July 31, 2018. The following table summarizes the Company's total annual obligations under this agreement as at March 31, 2014:

2014	$ 3,051
2015	4,746
2016	37,066
2017	37,066
2018	21,622
	$ 103,551

Subsequent to March 31, 2014, the additional office lease has been subleased until December 31, 2015 and the Company's commitment has been reduced to $339 per month from $2,976 per month.

15 Financial Instruments and Financial Risk Management:

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

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

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

(a) Credit risk:

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

(b) Liquidity risk:

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

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

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

As at March 31, 2014, the Company's financial liabilities were comprised of accounts payable and accrued liabilities, which have a maturity of less than one year.

(c) Market risk:

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

(i) Currency risk:

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

The balances denominated in foreign currency are as follows:

	March 31, 2014	March 31, 2013
	US$	US$
Cash	**116,528**	106,604
Other receivables and advances	**-**	-
Trade accounts payable and accrued liabilities	**-**	-
	Mexican Peso	Mexican Peso
Cash	**1,779,268**	137,566
Other receivables and advances	**6,646,583**	4,596,437
Trade accounts payable and accrued liabilities	**2,772,380**	116,871

The Company has completed a sensitivity analysis to estimate the impact of the change in the foreign exchange rates on net loss for the period. The result of the sensitivity analysis shows a change in +/- 10% in the Mexican Peso exchange rate could have an impact of approximately +/- $15,000 on the Company's net loss. This result arises primarily because the Company has Mexican Peso denominated cash accounts, accounts receivable and short term liabilities. The actual results of a change in foreign exchange rates would depend on the foreign currency denominated assets and liabilities at the time and could cause the impact on the Company's results to differ from above.

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

(ii) Commodity price risk:

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

(iii) Interest rate risk:

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

d) Fair value of financial instruments

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

March 31, 2014		**Level 1**		**Level 2**		**Level 3**		**Total**
Marketable securities	$	608,149	$	-	$	-	$	608,149
Cash and Cash Equivalents	$	1,803,882	$	-	$	-	$	1,803,882
March 31, 2013		Level 1		Level 2		Level 3		Total
Marketable securities	$	848,922	$	-	$	-	$	848,922
Cash and Cash Equivalents	$	3,966,034	$	-	$	-	$	3,966,034

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

16 Capital Management:

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

16 Capital Management *(continued)*:

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

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

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

The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the three months ended March 31, 2014.

17 Subsequent Events:

On May 16, 2014, the Company announced a non-brokered private placement of up to 7.353 million units (each "Unit") at a purchase price of $0.34 per Unit, for aggregate gross proceeds of up to $2,500,000. Each Unit will consist of one common share ("Common Share") of the Company and one transferable share purchase warrant ("Warrant"). Each whole Warrant will entitle the holder to acquire one Common Share at an exercise price of $0.60 for a period of 24 months from the closing date of the Private Placement. The expiry date of the Warrants may be accelerated, at the sole option of the Company, to 30 business days following the date on which the Company gives notice that its common shares have closed for 20 consecutive trading days at a price of $0.85 or greater. Cash finder's fees in may be paid in connection with the Private Placement.

There is no assurance that any or all funds will be secured for the terms offered. The Private Placement and payment of any finder's fee are subject to acceptance by the TSX Venture Exchange.