KOOTENAY SILVER INC.

(An Exploration Stage Company)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ending

September 30, 2013

and

September 30, 2012

(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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UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

KOOTENAY SILVER INC.

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

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Exhibit 1

		September 30, 2013		December 31, 2012
ASSETS				
Current:				
Cash and cash equivalents	**$**	**5,214,414**	$	**6,925,053**
Other receivables and advances (Note 8)		**719,563**		**601,922**
Prepaid expenses		**108,717**		**109,611**
Marketable securities (Note 4)		**486,507**		**892,333**
Total current assets		**6,529,201**		**8,528,919**
Non-current assets:				
Equipment (Note 5)		**243,267**		**196,064**
Exploration advances		**23,000**		**23,000**
Reclamation deposits		**65,500**		**65,500**
Mineral properties (Note 6)		**31,774,953**		**27,184,432**
	$	**38,635,921**	$	**35,997,915**
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable and accrued liabilities (Note 11)	**$**	**288,122**	$	**352,975**
Total current liabilities		**288,122**		**352,975**
Equity:				
Share capital (Note 7)		**47,043,736**		**42,991,181**
Contributed surplus (Note 7)		**16,889,272**		**15,108,951**
Accumulated other comprehensive loss (Exhibit 4)		**(1,349,551)**		**(1,192,817)**
Deficit		**(24,235,658)**		**(21,262,375)**
Total Equity		**38,347,799**		**35,644,940**
Total liabilities and equity	**$**	**38,635,921**	$	**35,997,915**

Going Concern (Note 1)
Commitments (Note 14)

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 September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
General and Administrative Expenses				
Depreciation	**$ 5,858**	$ 4,075	**$ 32,346**	$ 28,204
Office and general (Note 11)	**373,069**	215,939	**845,154**	713,777
Management fees (Note 11)	**92,325**	89,750	**271,825**	269,250
Stock-based payments (Note 7)	**449,969**	33,360	**1,082,508**	183,683
Warrant revaluation (Note 7)	**-**	541,398	**-**	541,398
Professional fees (Note 11)	**68,031**	40,379	**215,631**	167,583
Regulatory and filing fees	**4,940**	1,774	**24,089**	37,945
Rent (Note 14)	**30,060**	18,415	**81,316**	70,632
Loss before Exploration and Other Items	**1,024,252**	945,090	**2,552,869**	2,012,472
Exploration Expenditures				
Mineral property investigation	**95,669**	88,278	**217,924**	144,168
	95,669	88,278	**217,924**	144,168
Other Items				
Administration income	**2,090**	13,697	**4,870**	34,819
Foreign exchange gain (loss)	**72,980**	171,476	**(47,579)**	223,028
Loss on sale of market securities	**(269,599)**	-	**(269,599)**	-
Finance income	**21,913**	2,912	**109,818**	13,128
	(172,616)	188,085	**(202,490)**	270,975
Loss for the period	**1,292,537**	845,283	**2,973,283**	1,885,665
Basic and Diluted Loss per Share	**$ (0.021)**	$ (0.017)	**$ (0.048)**	$ (0.040)
Weighted Average Number of Shares Outstanding	**62,808,850**	48,378,850	**61,981,391**	47,167,022

- see accompanying notes -

KOOTENAY SILVER INC.

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

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

Exhibit 3

	For the three months ended September 30		For the nine months ended September 30	
	2013	2012	**2013**	2012
Net loss for the period	**$ (1,292,537)**	$ (845,283)	**$ (2,973,283)**	$ (1,885,665)
Other comprehensive (loss) gain				
Unrealized (loss) gain on available-for-sale financial assets arising during the period	**110,971**	(43,266)	**(166,567)**	(314,779)
Foreign currency translation differences of foreign operations	**(29,859)**	(40,371)	**9,833**	(45,623)
Total other comprehensive (loss) gain	**81,112**	(83,637)	**(156,734)**	(360,402)
Comprehensive loss for the period	**$ (1,211,425)**	$ (928,920)	**$ (3,130,017)**	$ (2,246,067)

- 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, 2011	45,415,100	$	29,286,753	$	16,898,805	$	(142,479)	$	(18,680,976)	$	27,362,103
Stock-based compensation	-		-		183,683		-		-		183,683
Exercise of stock options	243,750		381,516		(170,578)		-		-		210,938
Acquisition of mineral properties	70,000		69,300		-		-		-		69,300
Warrant revaluation	-		-		541,398		-		-		541,398
Exercise of warrants	2,865,000		4,410,615		(1,086,110)		-		-		3,324,505
Unrealized loss on available-for-sale financial assets arising during the period	-		-		-		(314,779)		-		(314,779)
Foreign currency translation differences of foreign operations	-		-		-		(45,623)		-		(45,623)
Net loss for nine months	-		-		-		-		(1,885,665)		(1,885,665)
Balance, September 30, 2012	48,593,850	$	34,148,184	$	16,367,198	$	(502,881)	$	(20,566,641)	$	29,445,860
Balance, December 31, 2012	56,488,850	$	42,991,181	$	15,108,951	$	(1,192,817)	$	(21,262,375)	$	35,644,940
Shares issued, net of issuance costs	6,250,000		4,000,055		697,813		-		-		4,697,868
Stock-based compensation	-		-		1,082,508		-		-		1,082,508
Acquisition of mineral properties	70,000		52,500		-		-		-		52,500
Unrealized loss on available-for-sale financial assets arising during the period	-		-		-		(166,567)		-		(166,567)
Foreign currency translation differences of foreign operations	-		-		-		9,833		-		9,833
Net loss for nine months	-		-		-		-		(2,973,283)		(2,973,283)
Balance, September 30, 2013	62,808,850	$	47,043,736	$	16,889,272	$	(1,349,551)	$	(24,235,658)	$	38,347,799

- see accompanying notes -

KOOTENAY SILVER INC.

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

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Exhibit 5

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	**2013**	2012
Cash Flows from Operating Activities				
Net loss for the period	**$ (1,292,537)**	$ (845,283)	**$ (2,973,283)**	$ (1,885,665)
Add items not involving any outlay of cash:				
Share based payment	**449,969**	33,360	**1,082,508**	183,683
Loss from the sale of marketable securities	**269,599**		**269,599**	-
Warrant revaluation	**-**	541,398	**-**	541,398
Depreciation	**5,858**	4,075	**32,346**	28,204
	(567,111)	(266,450)	**(1,588,830)**	(1,132,380)
Changes in non-cash operating working capital balances:				
Accounts receivable and advances	**323,688**	109,700	**(127,585)**	231,431
Prepaid expenses	**(11,453)**	(10,792)	**894**	6,416
Accounts payable and accrued liabilities	**(94,236)**	(18,500)	**(104,768)**	(257,431)
	$ (349,112)	$ (186,042)	**$ (1,820,289)**	$ (1,151,964)
Cash Flows from Financing Activities				
Issuance of share capital net of issuance costs	**$ (360)**	$ 162,182	**$ 4,693,528**	$ 3,501,125
Investor deposits	**-**	-	**-**	(2,438)
	$ (360)	$ 162,182	**$ 4,693,528**	$ 3,498,687
Cash Flows from Investing Activities				
Reclamation deposits paid	**$ -**	$ -	**$ -**	$ (3,500)
Investment in equipment	**(42,139)**	(6,072)	**(79,528)**	(8,175)
Investment in mineral properties	**(629,040)**	(587,453)	**(4,600,021)**	(2,391,562)
Changes in non-cash investing working capital balances:				
Accounts receivable and advances	**3,800**	(218,285)	**9,944**	420,802
Accounts payable and accrued liabilities	**39,187**	(50,724)	**39,915**	(796,183)
	$ (628,192)	$ (862,534)	**$ (4,629,690)**	$ (2,778,618)
Effect of foreign exchange rate changes on cash	**(103,631)**	-	**45,812**	-
Decrease in Cash and Cash Equivalents, During the period	**(977,664)**	(886,394)	**(1,756,451)**	(431,895)
Cash and Cash Equivalents, Beginning of the period	**6,295,709**	1,932,482	**6,925,053**	1,477,983
Cash and Cash Equivalents, End of the period	**$ 5,214,414**	$ 1,046,088	**$ 5,214,414**	1,046,088

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

- see accompanying notes -

((Expressed in Canadian dollars)

1 Reporting Entity:

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

During the year ended December 31, 2012, the Company changed its name from Kootenay Gold Inc. to Kootenay Silver Inc. and continues to trade on the TSX.V under the symbol KTN.

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.

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, 2012 the Company was able to raise $11,578,125 from private placements and warrant exercise.

During the three and nine months ended September 30, 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 and nine months ended September 30, 2013 and 2012, the Company experienced operating losses and negative operating cash flows. Operations of the Company having been primarily funded by the issuance of share capital. The Company expects to incur further losses in the development of its business. Management has estimated that the Company has sufficient financing to complete current work plans; however, expanded and future development will require additional financing in order to complete all planned exploration and other programs during the year ending December 31, 2013 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.

	September 30, 2013	September 30, 2012
Deficit	**$ 24,235,658**	$ 20,566,641
Working capital	**$ 6,241,079**	$ 2,020,636

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 IAS 34, Interim Financial Reporting (IAS 34).

The accounting 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, 2012. These consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012.

These consolidated interim financial statements were authorized for issue by the Audit Committee of the Company as authorized by the Board of Directors on Novembe 29, 2013.

Functional and presentation currency

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

Assets and liabilities of the subsidiaries with a functional currency in US dollars and Mexican pesos are translated at the 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 income 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 income.

3 Significant Accounting Policies

Adoption of new accounting standards

The following new standards, interpretations and amendments were issued by the 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 have no effect on the Company's results of operations, financial position and disclosures:

- IFRS 7, Financial Instruments: Disclosures (amended 2011)
- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interests in Other Entities
- IFRS 13, Fair Value Measurement
- IAS 1, Presentation of Financial Statements
- IAS 27, Separate Financial Statements (amended 2011)
- IAS 28, Investments in Associates (amended 2011)

3 Significant Accounting Policies *(continued)*:

Future Accounting Policy Changes Issued but not yet in Effect

Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from below.

The following new standard was issued by the IASB and was intended to be effective for annual periods beginning after January 1, 2015.

The IASB has issued a new standard, IFRS 9, Financial Instruments ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, 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. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income.

More specifically, the standard:

- establishes two primary measurement categories for financial assets: amortized cost and fair value;
- prescribes that classification depends on entity's business model and the contractual cash flow characteristics of the financial asset;
- eliminates the existing categories: held to maturity, available for sale, and loans and receivables.

Certain changes were also made regarding the fair value option for financial liabilities and accounting for certain derivatives linked to unquoted equity instruments. The Company is currently assessing the impact of this standard.

The IASB decided that a mandatory date of January 1, 2015 would not allow sufficient time for entities to prepare to apply the new Standard because the impairment phase of the IFRS 9 project has not yet been completed.

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 September 30, 2013 is $486,507 (2012 – $564,077), resulting in other comprehensive loss of $166,567 (2012 – other comprehensive loss of $314,779).

(Expressed in Canadian dollars)

5 Equipment:

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Total
Cost					
Balance December 31, 2011	**166,837**	**58,374**	**133,923**	**-**	**359,134**
Additions	56,163	-	5,365	2,828	64,356
Balance December 31, 2012	**223,000**	**58,374**	**139,288**	**2,828**	**423,490**
Additions	-	-	38,529	40,999	79,528
Balance September 30, 2013	**223,000**	**58,374**	**177,817**	**43,827**	**503,018**
Accumulated Depreciation					
Balance December 31, 2011	**98,421**	**23,112**	**56,125**	**-**	**177,658**
Depreciation for year	28,608	6,971	13,906	283	49,768
Balance December 31, 2012	**127,029**	**30,083**	**70,031**	**283**	**227,426**
Depreciation for period	16,868	4,183	8,602	2,693	32,346
Balance September 30, 2013	**143,897**	**34,266**	**78,633**	**2,976**	**259,772**
Carrying Value December 31, 2012	95,971	28,291	69,257	2,545	196,064
Carrying Value September 30, 2013	**79,103**	**24,108**	**99,184**	**40,851**	**243,246**

(Expressed in Canadian dollars)

6 Mineral Properties:

	Canada Total	Promontorio	Santa Lucia	Sonora Anomalies	Espiritu	La Cabana	Other	Mexico Total	2013 Total	2012 Total
	$	$	$	$	$	$	$	$	$	$
Acquisition Costs										
Balance, beginning	1,192,165	3,537,658	103,974	507,279	-	-	101,412	4,250,323	5,442,488	5,318,188
Incurred	112,500	-	-	-	-	-	-	-	112,500	124,300
Balance, ending	1,304,665	3,537,658	103,974	507,279	-	-	101,412	4,250,323	5,554,988	5,442,488
Exploration Expenditures										
Balance, beginning	6,037,465	18,392,589	1,021,843	3,237,728	1,059,224	10,698	614,171	24,336,253	30,373,718	26,763,711
Assaying and Lab	36,700	339,560	-	-	-	-	5,937	345,497	382,197	400,244
Camp Costs	-	463,520	-	-	-	-	-	463,520	463,520	406,703
Drafting	21,700	146,964	-	-	66	-	3,731	150,761	172,461	256,363
Drilling	10,916	2,106,707	-	-	507	-	-	2,107,214	2,118,130	1,262,184
Geological mapping	20,296	106,868	-	-	-	-	22,057	128,925	149,221	169,583
Geophysics	94,493	28,349	-	-	-	-	-	28,349	122,842	19,296
Maintenance	35,705	343,751	19,819	158,012	76,802	16,877	19,111	634,372	670,077	388,321
Miscellaneous	7,300	50,033	-	407	-	-	17	50,457	57,757	80,109
Prospecting	148,926	159,549	1,084	44,464	469	406	13,526	219,498	368,424	431,507
Rock Sampling	4,476	40,500	13,500	-	-	-	-	54,000	58,476	76,936
Metallurgical testing	-	30,578	-	-	-	-	-	30,578	30,578	118,761
Incurred	380,512	3,816,379	34,403	202,883	77,844	17,283	64,379	4,213,171	4,593,683	3,610,007
Balance, ending	6,417,977	22,208,968	1,056,246	3,440,611	1,137,068	27,981	678,550	28,549,424	34,967,401	30,373,718
Total property balance	7,722,642	25,746,626	1,160,220	3,947,890	1,137,068	27,981	779,962	32,799,747	40,522,389	35,816,206
Recovery of costs	(2,667,156)	-	(1,050,598)	(1,158,103)	(1,091,983)	(10,698)	(166,440)	(3,477,822)	(6,144,978)	(6,029,316)
Option payment received	-	-	(2,000)	-	-	-	-	(2,000)	(2,000)	(2,000)
Abandoned	(2,580,692)	-	-	(19,766)	-	-	-	(19,766)	(2,600,458)	(2,600,458)
Cumulative mineral property costs	2,474,794	25,746,626	107,622	2,770,021	45,085	17,283	613,522	29,300,159	31,774,953	27,184,432

(Expressed in Canadian dollars)

6 Mineral Properties (Canada):

	Copley	Kimberley Gold Trend	Jumping Josephine*	Nechako Region	Rosetta**	Silver Fox	Other	2013 Total	2012 Total
	$	$	$	$	$	$	$	$	$
Acquisition Costs									
Balance, beginning	57,403	-	107,275	139,695	108,028	32,500	747,264	1,192,165	1,067,865
Incurred	33,750	-	-	78,750	-	-	-	112,500	124,300
Balance, ending	91,153	-	107,275	218,445	108,028	32,500	747,264	1,304,665	1,192,165
Exploration Expenditures									
Balance, beginning	451,505	183,151	860,434	393,598	659,412	320,467	3,168,898	6,037,465	5,571,786
Assaying and Lab	5,717	1,094	-	7,679	-	5,164	17,046	36,700	64,676
Camp Costs	-	-	-	-	-	-	-	-	-
Drafting	550	7,150	-	2,300	-	8,950	2,750	21,700	53,396
Drilling	10,916	-	-	-	-	-	-	10,916	75,904
Geological mapping	434	141	-	592	-	10,907	8,222	20,296	58,442
Geophysics	6,851	23,637	-	25,044	-	38,961	-	94,493	5,200
Maintenance	4,736	838	115	7,238	493	5,628	16,657	35,705	43,912
Miscellaneous	500	350	-	2,400	-	1,050	3,000	7,300	13,421
Prospecting	10,971	7,100	-	46,305	-	17,550	67,000	148,926	147,478
Rock Sampling	-	-	-	4,476	-	-	-	4,476	3,250
Incurred	40,675	40,310	115	96,034	493	88,210	114,675	380,512	465,679
Balance, ending	492,180	223,461	860,549	489,632	659,905	408,677	3,283,573	6,417,977	6,037,465
Total property balance	583,333	223,461	967,824	708,077	767,933	441,177	4,030,837	7,722,642	7,229,630
Recovery of costs	(508,908)	(112,000)	(490,950)	-	(449,538)	-	(1,105,760)	(2,667,156)	(2,605,156)
Abandoned	-	-	-	(21,927)	-	-	(2,558,765)	(2,580,692)	(2,580,692)
Cumulative mineral property costs	74,425	111,461	476,874	686,150	318,395	441,177	366,312	2,474,794	2,043,782

*Joint Venture Project
**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 at certain milestones, 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 the ECO decide to sell it.

Santa Lucia - Southern Sonora State, Mexico

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

On October 25, 2010, the Company entered into a Letter Agreement, whereby Copper Creek Gold ("CCG") was granted the right to earn 60% interest in the Santa Lucia Property. To fulfil its obligations and earn its interest, CCG must pay $60,000 in cash with $15,000 due on approval of the Agreement; issue an aggregate of 800,000 common shares and fund $2,000,000 of exploration expenditures on the Property within a four year period. The Company has received 600,000 common shares from CCG. Subsequent to the period ending September 30, 2013, the Company received notice of termination from Copper Creek Gold.

Sonora Concessions - Northwest Mexico

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

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

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

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

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

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

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

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

On February 12, 2013, Astral was acquired by Orex Minerals Inc. ("Orex") under a plan of arrangement. Orex issued 0.0834 of an Orex common share for each issued and outstanding common shares of Astral. The joint venture survives this arrangement and is now between Orex and the Company.

Copley Property – Nechako Plateau, British Columbia

On February 23 2010, the Company entered into an option agreement whereby they were 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 $50,100 and paid $40,000 under the option agreement. The Copley property was previously optioned to Northern Vertex Mining Corp. ("Northern") during which it spent $475,392 and issued the Company 400,000 shares of Northern.

Other Properties – Southern British Columbia

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

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

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

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

Under the terms of the Grubstake Agreement 100,000 shares are issuable on each property and exploration expenditures of $40,000 must be incurred per each. The Company issued 200,000 shares valued at $249,000 and during the year issued 25,000 shares valued at $24,750 relating to Rosetta property. The Company abandoned Monashee without issuing the remaining 25,000 shares payment. If production is achieved on a specific property a bonus of 200,000 shares would be paid.

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

During the year ended December 31, 2011, the Company optioned under grubstake agreements three properties in the Nechako region, namely the Bird, Fox and Alco. Under the agreement the Company must on each property make total cash payments of $80,000; issue an aggregate total of 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. The Company has issued 40,000 shares per property with a fair value of $36,600, (aggregate total 120,000 shares with a fair value of $109,800), which includes 15,000 shares with a fair value of $11,250 (total $33,750) issued during the nine months ended September 30, 2013. Cash payments of $35,000 have been paid under each of the option agreements totaling $105,000.

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 nine months ended September 30, 2013, the Company expensed $217,924 (2012 - $144,168) 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.

(Expressed in Canadian dollars)

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

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, 2012	**9,103,500**	**$**	**1.17**	**3,638,500**	**$**	**1.10**
Granted	**5,831,600**		**1.33**	**2,120,000**		**1.05**
Expired	**(5,022,000)**		**1.18**	**(280,000)**		**0.91**
Exercised	**(2,865,000)**		**1.16**	**(278,750)**		**0.88**
Outstanding, December 31, 2012	**7,048,100**	**$**	**1.30**	**5,199,750**	**$**	**1.11**
Granted	**3,125,000**		**1.08**	**1,952,000**		**0.66**
Expired/Cancelled	**(1,221,500)**		**1.15**	**(1,065,000)**		**1.72**
Outstanding, September 30, 2013	**8,951,600**	**$**	**1.24**	**6,086,750**	**$**	**0.86**

Warrants

As at September 30, 2013, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

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

The weighted average remaining life of the outstanding warrants is 1.14 years (2012 – 0.50 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.

(Expressed in Canadian dollars)

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

On April 26, 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 ("Unit") was priced at $0.76 per Unit and consisted of one common share ("Share") and one half of one common share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to purchase one Share at a purchase price of $1.08 per Share expiring April 26, 2015. Subject to certain conditions, Agnico-Eagle will have the right to participate in any future equity offerings by the Company in order to maintain its pro rata investment in the Company. The Company paid share issuance costs of $52,132.

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

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

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

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

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

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.

(Expressed in Canadian dollars)

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

During the three and nine months ending September 30, 2013, the Company granted a total of 1,952,000 share purchase options to officers, directors, employees and consultants. Each share purchase option is exercisable for a period of 5 years from grant date at an exercise price of $0.66. The share purchase options vest in increments from the grant date and will be fully vested in 18 months.

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

During the three and nine months ended September 30, 2013, share based payments totalling $449,969 (2012 - $33,360) and $1,082,508 (2012 - $183,683) respectively, were expensed. As at September 30, 2013, 3,562,750 options (2012 – 3,094,750) with a weighted average exercised price of $0.88 per option (2012 - $1.10) were fully vested and exercisable.

As at September 30, 2013, the Company had outstanding stock options enabling holders to acquire common share of the Company as follows:

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

The weighted average remaining life of the options is 3.61 years (2012 – 2.03 years).

For stock options granted to employees, officers, directors and consultants, the Company recognizes share based payment expense based on the estimated fair value of the stock options granted as calculated using the Black-Scholes option-pricing model on the date of the grant. The following assumptions were used for the Black-Scholes valuation of stock options granted during 2013 and 2012:

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

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. The Company has used historical volatility to estimate the volatility of the share price, and uses historical forfeiture rates to estimate the effect of forfeitures. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option and warrant grants.

Earnings per share

The calculation of basic loss per share for the three months ended September 30, 2013 was based on the loss of $1,292,537 (2012 - $845,283) and the weighted average number of common shares outstanding of 62,808,850 (2012 – 48,378,850) respectively. The Company does not have any instruments that would give rise to a dilution effect as of September 30, 2013. The Company has 6,086,750 options and 8,951,600 warrants that are anti-dilutive and thus, not included in diluted loss per share as of September 30, 2013.

(Expressed in Canadian dollars)

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

The calculation of basic loss per share for the nine months ended September 30, 2013 was based on the loss of $2,973,283 (2012 - $1,885,665) and the weighted average number of common shares outstanding of 61,981,391 (2012 – 47,167,022) respectively. The Company does not have any instruments that would give rise to a dilution effect as of September 30, 2013. The Company has 6,086,750 options and 8,951,600 warrants that are anti-dilutive and thus, not included in diluted loss per share as of September 30, 2013.

8 Receivables:

The Company's receivables are as follows:

	September 30, 2013	September 30, 2012
IVA/GST receivable	**$ 493,260**	$ 263,673
Other receivable	**211,999**	234,747
Advances Receivable	**14,304**	31,550
Total	**$ 719,563**	$ 529,770

9 Income Taxes:

Estimated taxable income for the period is $nil. Based upon the level of historical taxable income, it cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets. The estimated taxable temporary difference valuation allowance will be adjusted in the period it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

The Company has non capital loss carryforwards of approximately $11,756,326 (2011: $9,380,733) 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
	2012
2024	167,304
2025	125,931
2026	475,730
2027	471,976
2028	1,358,631
2029	1,845,202
2030	2,946,164
2031	1,989,795
2032	2,375,593
TOTAL	11,756,326

In addition, the Company has capital losses of $302,496, which may be carried forward indefinitely and applied to reduce future Canadian capital gains.

(Expressed in Canadian dollars)

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

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

Mexican			
	SES	**MJM**	**TOTAL**
2015	-	120,581	120,581
2016	-	-	-
2017	-	3,084,002	3,084,002
2018	-	5,915,798	5,915,798
2019	-	1,133,343	1,133,343
2020	-	2,440,290	2,440,290
2021	-	6,767,896	6,767,896
2022	6,106	180,074	186,180
TOTAL	6,106	19,641,983	19,648,089

The deferred tax assets have not been recognized because at this stage of the Company's development, it is not determinable that future taxable profit will be available against which the Company can utilize such deferred tax assets.

10 Supplemental Disclosure of Cash and Non-Cash Activities:

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

	2013	2012
Acquisition of shares as proceeds from option of mineral property	**(62,000)**	-
Issuance of share capital for acquisition mineral property interests	**52,500**	69,300

(Expressed in Canadian dollars)

11 Related Party Transactions and Balances:

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

		2013		2012
Management fees charged by companies controlled by a director and officers	**$**	**377,250**	$	377,250
Consulting, administrative and geological fees charged by a company with common officers		**90,000**		90,000

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 nine months ended September 30, 2013, the Company incurred expenses of $90,000 (2012 - $90,000) under the administrative services contract.

In addition to the above:

a) Included in marketable securities as at September 30, 2013 is $407,000 (2012 - $400,000) market value of shares received from companies with directors in common.

b) Included in exploration recovery of costs as at September 30, 2013 is $1,117,214 (2012 - $987,588) received from joint venture partners who have a common director.

c) Included in accounts receivable as at September 30, 2013 is $119,336 (2012 - $89,369) from companies who have common directors or officers.

d) Included in accounts payable as at September 30, 2013 is $22,799 (2012 - $12,365) from companies who have common directors or officers.

e) The Company incurred $45,000 (2012 - $51,000), of which $30,000 is held in accrued payables, for compensation to directors during the nine months ended September 30, 2013.

f) The Company incurred $90,000 (2012 - $nil) for consulting fees to one director during the nine months ended September 30, 2013.

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.

(Expressed in Canadian dollars)

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:

	September 30, 2013	September 30, 2012
Canada:		
Current asset	**$ 5,942,003**	$ 2,063,701
Mineral property	**2,474,794**	2,669,293
Other Non-current asset	**171,367**	113,034
Current liability	**(267,110)**	(223,052)
	$ 8,321,054	$ 4,622,976

	September 30, 2013	September 30, 2012
Mexico:		
Current asset	**$ 587,198**	$ 183,235
Mineral property	**29,300,159**	24,550,789
Other Non-current asset	**160,400**	92,108
Current liability	**(21,012)**	(3,248)
	$ 30,026,745	$ 24,822,884

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 September 30, 2013:

2013	9,507
2014	38,028
2015	38,028
	$ 85,563

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 September 30, 2013:

2013	10,713
2014	35,710
2015	35,710
2016	35,710
2017	35,710
2018	17,855
	$ 171,408

15 Financial Instruments and Financial Risk Management:

The Company's financial instruments include cash and cash equivalents, accounts receivable and advances, exploration advances, marketable securities, reclamation deposits, accounts payable and accrued liabilities, and investor deposits. 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.

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, Harmonized Sales Tax input tax credits and IVA credits (Mexican Value Added Tax refunds) from the Mexican Government. Accordingly, the Company views credit risk on accounts receivable as minimal, being the refund of tax credits in Canada and Mexico to moderate being receivables from exploration partners.

(b) Liquidity risk:

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

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

As at September 30, 2013, the Company's financial liabilities were comprised of accounts payable and accrued liabilities, which have a maturity of less than one year.

(c) Market risk:

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

(i) Currency risk:

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian, 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.

(Expressed in Canadian dollars)

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

The balances denominated in foreign currency are as follows:

	September 30, 2013	September 30, 2012
	US$	US$
Cash	**8,932**	21,606
Other receivable	**-**	-
Trade accounts payable and accrued liabilities	**-**	-
	Mexican Peso	Mexican Peso
Cash	**1,570,823**	297,318
Other receivable	**5,502,059**	1,853,658
Trade accounts payable and accrued liabilities	**260,886**	127,416

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 +/- $10,000 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 the above.

(ii) Commodity price risk:

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

(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 yearend 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:

September 30, 2013		**Level 1**		**Level 2**		**Level 3**		**Total**
Marketable securities	$	486,507	$	-	$	-	$	486,507
Cash & Cash Equivalents	$	5,214,414	$	-	$	-	$	5,214,414
September 30, 2012		Level 1		Level 2		Level 3		Total
Marketable securities	$	564,077	$	-	$	-	$	564,077
Cash & Cash Equivalents	$	1,046,088	$	-	$	-	$	1,046,088

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

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

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

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

16 Capital Management:

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

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

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

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 and nine months ended September 30, 2013.