TSX-V: KS

KLONDIKE SILVER CORP.

Financial Statements

For the Years Ended May 31, 2014 and 2013

(Expressed in Canadian Dollars)

MORGAN & COMPANY LLP
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Klondike Silver Corp.

Report on the financial statements

We have audited the accompanying financial statements of Klondike Silver Corp., which comprise the statements of financial position as at May 31, 2014 and 2013, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Klondike Silver Corp. as at May 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada — *"Morgan & Company LLP"*

September 29, 2014 — Chartered Accountants

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KLONDIKE SILVER CORP.

STATEMENTS OF FINANCIAL POSITION
(Expressed In Canadian dollars)

		May 31, 2014		May 31, 2013
ASSETS				
Current				
Cash	**$**	**14,047**	$	43,339
Receivables		**6,497**		62,765
Prepaid expenses		**17,071**		4,415
Total Current Assets		**37,615**		110,519
Deposits		**-**		10,146
Reclamation Bonds (Note 6)		**120,500**		120,500
Mill And Equipment (Note 7)		**503,849**		569,289
Exploration And Evaluation Assets (Note 8)		**9,476,691**		9,336,608
Total Assets	**$**	**10,138,655**	$	10,147,062
LIABILITIES				
Current				
Accounts payable	**$**	**236,303**	$	302,330
Accrued liabilities (Note 9)		**171,306**		234,386
Due to related parties (Note 11)		**64,002**		280,500
Mortgage payable (Note 12)		**145,000**		145,000
Flow-through share premium liability		**14,286**		2,000
Total Current Liabilities		**630,897**		964,216
Decommissioning Liability (Note 10)		**83,300**		81,600
Total Liabilities		**714,197**		1,045,816
EQUITY				
Share Capital (Note 13)		**29,927,419**		28,940,739
Share Subscriptions		**-**		89,386
Share Subscriptions Receivable (Note 13)		**(21,350)**		-
Reserves		**2,820,110**		2,745,510
Deficit		**(23,301,721)**		(22,674,389)
Total Equity		**9,424,458**		9,101,246
Total Liabilities And Equity	**$**	**10,138,655**	$	10,147,062

Nature of Operations and Going Concern (Note 1)

These financial statements were approved for issue by the Board of Directors on September 29, 2014.

They are signed on the Company's behalf by:

"*Richard Hughes*" — **Director**

"*Mark Luchinski*" — **Director**

The accompanying notes are an integral part of these financial statements

KLONDIKE SILVER CORP.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed In Canadian dollars)

	Years ended May 31 **2014**	2013
Expenses		
Amortization	**$ 146**	$ 1,206
Administration, net of recovery (Note 11)	**(10,000)**	425,000
Compensation and consulting (Note 11)	**206,028**	313,435
Interest and bank charge	**24,753**	25,026
Investor relations and promotion (Note 11)	**83,739**	46,095
Office and miscellaneous	**43,086**	115,107
Professional fees	**17,866**	42,206
Regulatory and stock transfer fees	**37,676**	36,037
Share-based compensation (Note 11)	**74,600**	114,698
Utilities and communication	**6,649**	21,671
Loss Before Other Income (Expenses) And Income Taxes	**(484,543)**	(1,140,481)
Other Income (Expenses)		
Accretion	**(1,700)**	(1,600)
Exploration and evaluation assets written-off	**(180,009)**	(235,116)
Recovery of prior period expenses	**36,920**	-
Interest earned	**-**	195
Loss sale of marketable securities	**-**	(15,482)
	(144,789)	(252,003)
Loss Before Income Taxes	**(629,332)**	(1,392,484)
Deferred Income Tax Recovery	**2,000**	-
Net Loss And Comprehensive Loss	**$ (627,332)**	$ (1,392,484)
Loss Per Share	**$ (0.02)**	$ (0.08)
Weighted Average Number Of Shares Outstanding, Basic and diluted	**28,181,907**	18,385,548

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

KLONDIKE SILVER CORP.

STATEMENTS OF CHANGES IN EQUITY
(Expressed In Canadian dollars)

	SHARE CAPITAL		SHARE SUBSCRIPTIONS			
	NUMBER	AMOUNT	(RECEIVABLE)	RESERVES	DEFICIT	TOTAL
Balance May 31, 2012	17,774,806	$ 28,549,189	$ 149,500	$ 2,495,962	$ (21,281,905)	$ 9,912,746
Issue of shares for exploration and evaluation assets	479,807	76,900	-	-	-	76,900
Issue of shares for cash, private placements						
Non flow-through shares	4,455,000	312,450	(149,500)	133,050	-	296,000
Flow-through shares	40,000	2,200	-	1,800	-	4,000
Share subscriptions advance	-	-	89,386		-	89,386
Share-based compensation	-	-	-	114,698	-	114,698
Comprehensive loss for the year	-	-	-	-	(1,392,484)	(1,392,484)
Balance May 31, 2013	22,767,113	28,940,739	89,386	2,745,510	(22,674,389)	9,101,246
Issue of shares for exploration and evaluation assets	520,000	54,600	-	-	-	54,600
Issue of shares for cash, private placements						
Non flow-through shares	16,883,660	896,366	(110,736)	-	-	785,630
Flow-through	714,286	35,714	-	-	-	35,714
Share-based compensation	-	-	-	74,600	-	74,600
Comprehensive loss for the year	-	-	-	-	(627,332)	(627,332)
Balance, May 31, 2014	**40,885,059**	**$ 29,927,419**	**$ (21,350)**	**$ 2,820,110**	**$ (23,301,721)**	**$ 9,424,458**

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

KLONDIKE SILVER CORP.

STATEMENTS OF CASH FLOWS
(Expressed In Canadian dollars)

	Years Ended May 31 2014	2013
Operating Activities		
Net loss for the year	$ **(627,332)**	$ (1,392,484)
Non-cash items:		
Accretion and amortization	**1,846**	2,806
Exploration and evaluation assets written-off	**180,009**	235,116
Share-based compensation	**74,600**	114,698
Loss on marketable securities	**-**	15,482
Deferred income tax recovery	**(2,000)**	-
Changes in non-cash operating assets and liabilities:		
Receivables	**56,268**	25,879
Prepaid expenses	**(12,656)**	1,499
Accounts payable and accrued liabilities	**(64,940)**	260,372
Due to related parties	**(216,498)**	169,628
Flow-through share premium liability	**14,286**	-
Cash Used In Operating Activities	**(596,417)**	(567,004)
Investing Activities		
Exploration and evaluation assets costs	**(237,943)**	(1,138,783)
Exploration and evaluation assets ancillary income	**30,400**	1,064,544
Proceeds from sale of marketable securities	**-**	181,768
Mill and equipment additions	**(20,462)**	-
Reclamation bonds	**-**	(1,500)
Security deposit	**-**	(1,500)
Cash (Used In) Provided By Investing Activities	**(228,005)**	106,029
Financing Activities		
Proceeds from share issuances	**835,630**	302,000
Share subscriptions	**(21,350)**	89,386
(Repayments to) loan from related party	**(19,150)**	19,150
Mortgage proceeds	**-**	145,000
Cash Provided By Financing Activities	**795,130**	555,536
(Decrease) Increase In Cash During The Year	**(29,292)**	94,561
Cash (Bank Overdraft) – Beginning Of Year	**43,339**	(51,222)
Cash – End Of Year	$ **14,047**	$ 43,339

	2014	2013
Supplementary Cash Flow Information:		
Cash Paid During The Year For:		
Interest	$ **13,378**	$ 5,407
Income Tax	$ **-**	$ -
Non-cash Financing And Investing Activities:		
Shares issued for exploration and evaluation assets	$ **54,600**	$ 76,900
Exploration costs included in accounts payable	$ **149,235**	$ 207,442
Amortization capitalized to exploration and evaluation assets	$ **85,756**	$ 88,339

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Klondike Silver Corp. (the "Company") was incorporated on March 2, 2005 under the laws of the Province of British Columbia, Canada. The Company is a public company listed on the TSX Venture Exchange (the "TSX.V"), trading under the "KS" symbol. The address of the Company's corporate office and principal place of business is P.O. Box 10325, Pacific Centre, Suite 430, 609 Granville Street, Vancouver, British Columbia, Canada V7Y 1G5.

The Company incurred a net loss of $(627,332) for the year ended May 31, 2014 (May 31, 2013 - $(1,392,484) and had a working capital (deficiency) at May 31, 2014 of $(593,282) (May 31, 2013 - $(853,697) and a deficit of $23,301,721 (May 31, 2013 - $22,674,389). As at May 31, 2014 the Company did not have sufficient cash to meet minimum general and administration expenses for the year ending May 31, 2015. These statements have been prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Company is expending its best efforts in this regard, the outcome of these matters cannot be predicted at this time.

The Company is in the process of acquiring, exploring and developing its exploration and evaluation assets and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, and upon future profitable production. The operations of the Company have primarily been funded by the issuance of common shares and ancillary income. Continued operations of the Company are dependent on the Company's ability to complete equity financing or generate profitable operations in the future. Management's plan in this regard is to secure additional funds through future equity financings, which may not be available or may not be available on reasonable terms. These factors may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in the financial statements.

2. BASIS OF PRESENTATION

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

2. BASIS OF PRESENTATION (Continued)

b) Basis of Measurement and Presentation

These financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. In the opinion of management, all adjustments (including normal recurring accruals), considered necessary for a fair presentation have been included.

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

c) Foreign Currencies

The presentation currency of the Company and the functional currency of the Company is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

d) Critical Accounting Judgments and Estimates

The preparation of these financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The financial statements include judgments and estimates, which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of judgments and estimates that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Critical Judgments

- Management's capitalization of exploration costs and assumptions regarding the future recoverability of such costs are based on, among other things, the Company's estimate of current resources which are based on engineering and geological estimates, estimated silver, zinc and lead prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties.

2. BASIS OF PRESENTATION (Continued)

d) Critical Accounting Judgments and Estimates (Continued)

Critical Judgments (Continued)

- Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Estimates

The preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from management's best estimates, as additional information becomes available. The most sensitive estimates affecting the financial statements were the identification and capitalization of exploration costs, the existence of contingent assets and liabilities, the valuation of share-based compensation and the valuation of deferred income tax assets.

Areas where estimates are significant to the financial statements were as follows:

- the useful lives of mill and equipment which are included in the statements of financial position and the related amortization included in the statement of comprehensive loss;
- the inputs used in determining the net present value of the liability for decommissioning liabilities included in the statement of financial position;
- the inputs used in accounting for stock based compensation expense in the statement of loss and comprehensive loss; and
- the determination of income taxes and the valuation of deferred income tax assets.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial Instruments and Risk Management

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The classification depends on the purpose for which the assets were acquired. Management determines the classification of financial assets and liabilities at initial recognition The Company's accounting policy for each category is as follows:

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

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

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

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

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Financial Instruments and Risk Management (Continued)

Financial liabilities

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

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

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

The Company has classified cash (bank overdraft), marketable securities, deposits and reclamation bonds as fair value through profit or loss financial assets. Accounts payable and accrued liabilities, mortgage payable and due to related parties are classified as other financial liabilities. Management did not identify any material embedded derivatives, which require separate recognition and measurement.
Disclosures about the inputs to financial instrument fair value measurements are made within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

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

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

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

Financial instruments are exposed to credit, liquidity and market risks. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Liquidity risks is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of price risk: currency risk, interest rate risk and other price risk.

Liquidity risk is significant to the Company’s statement of financial position. The Company manages these risks by actively pursuing additional share capital issuances to settle its obligations in the normal course of its operating, investing and financing activities. The Company’s ability to raise share capital is indirectly related to changing metal prices and the price of gold, silver, zinc and lead in particular. To mitigate this market risk, management of the Company actively pursues a diversification strategy with property holdings focusing on base metals as well as precious metals.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Cash and Cash Equivalents

Cash consists of balances with banks and investments in financial instruments with maturities within three months held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. The Company places its cash and cash investments with institutions of high-credit worthiness. The Company had no cash equivalents as at May 31, 2014 and 2013.

c) Mill and Equipment

The mill comprises a used ore processing plant, used buildings and related equipment stated at cost. Amortization on mill and equipment is provided on the straight line method over estimated useful lives ranging from three to twenty years.

d) Exploration and Evaluation Assets

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activities, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss. Ancillary income received while the properties are in the exploration stage is credited to the carrying value of the mineral properties. Cost recoveries are credited against specific property costs, as received.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Facts and circumstances as defined in *IFRS 6 exploration and evaluation assets* are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- exploration for and evaluation of mineral resources in the specific area have not let to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;

- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Exploration and Evaluation Assets (Continued)

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, which management has determined to be indicated by a feasibility study, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

It is management's judgment that none of the Company's exploration and evaluation assets have reached the development stage and as a result are all considered to be exploration and evaluation assets.
Although the Company has taken steps to verify title to exploration and evaluation assets 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 may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

e) Impairment of Non-financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financials assets, including the mill, equipment and exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the assets is written down accordingly.

Where it is possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss is recognized in the statement of operations, except to the extent they reverse gains previously recognized in other comprehensive income or loss.

f) Decommissioning Liabilities

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Decommissioning Liabilities (Continued)

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

g) Share Capital

i) Non-monetary consideration

Agent's warrant issued as purchase consideration in non-monetary transactions is recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as consideration for exploration and evaluation assets is based on the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued using the residual method.

ii) Flow-through shares

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

The Company may also be subject to a Part XII.6 tax on flow-through proceeds, renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

iii) Share-based payments

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Share Capital (Continued)

iii) Share-based payments (Continued)

The fair value is measured at grant date, and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

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

iv) Share issuance costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

h) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Loss Per Share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares issued and outstanding during the period. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Basic and diluted loss per share is equal as outstanding stock options and warrants were all anti-dilutive.

4. FUTURE ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IAS 32: Offsetting Financial Assets and Financial Liabilities (Amended) clarifies the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014. The Company does not expect the amendments to IAS 32 to have a material impact on the financial statements.

IFRS 9 Financial Instruments was issued in November 2009 and covers the classification and measurement of financial assets as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entitles would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is applicable for periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

In May 2013, the IASB IFRS Interpretations Committee (“IFRIC”) issued IFRIC 21 – Levies (“IFRIC 21”), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.

The Company anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on its results and financial position. Disclosure changes are anticipated.

5. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The following new accounting policies were adopted by the Company on January 1, 2013 and had no significant impact on the Company's financial position and results of operations:

IFRS 10 Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess (This standard was effective for all annual periods beginning on or after January 1, 2013);

IFRS 11 Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers (This standard was effective for all annual periods beginning on or after January 1, 2013);

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles (This standard was effective for all annual periods beginning on or after January 1, 2013);

IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS (This standard was effective for all annual periods beginning on or after January 1, 2013);

IAS 27 (Amendment) New standard for the accounting and disclosure requirements for 'separate financial statements', which are financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with IFRS 9 (This standard was effective for all annual periods beginning on or after January 1, 2013);

IAS 28 (Amendment) New standard issued that supersedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures (This standard was effective for all annual periods beginning on or after January 1, 2013).

6. RECLAMATION BONDS

The reclamation bonds at May 31, 2014 of $120,500 (May 31, 2013 - $120,500) are recorded at fair value and consist of deposits made by the Company for indemnification of site restoration costs for the Silvana Mine, Sandon Mill, and exploration sites located in BC. Reclamation bonds in the amount of $100,000 are held in trust for the Company by a company controlled by a common director.

(Expressed in Canadian dollars)

7. MILL AND EQUIPMENT

	Costs			
	Mill	Equipment*	Land**	Total
Balance May 31, 2012 & May 31, 2013	$ 314,800	$ 1,285,360	$ 62,773	$ 1,662,933
Additions	-	20,462	-	20,462
Balance May 31, 2014	**$ 314,800**	**$ 1,305,822**	**$ 62,773**	**$ 1,683,395**

	Accumulated Depreciation			
	Mill	Equipment	Land	Total
Balance May 31, 2012	$ 104,010	$ 900,090	$ -	$ 1,004,100
Additions	42,160	47,384	-	89,544
Balance May 31, 2013	146,170	947,474	-	1,093,644
Additions	42,158	43,744	-	85,902
Balance May 31, 2014	**$ 188,328**	**$ 991,218**	**$ -**	**$ 1,179,546**

	Net Carrying Amount			
	Mill	Equipment	Land	Total
Balance May 31, 2013	$ 168,630	$ 337,886	$ 62,773	$ 569,289
Balance May 31, 2014	**$ 126,472**	**$ 314,604**	**$ 62,773**	**$ 503,849**

*Includes the Company's Rosebery building which had a net book value as at May 31, 2014 of $139,489 which is 100% encumbered by a first mortgage. (Note 12)

**Includes the Company's Rosebery land which is 100% encumbered by a first mortgage. (Note 12)

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

For the year ended May 31, 2014:

	Slocan and Sandon BC	Haultain Ontario	Milner Ontario	Total
Acquisition Costs				
Opening balance-acquisition	$ 751,628	$ 1	$ 1	$ 751,630
Option payments- shares	54,600	-	-	54,600
	806,228	1	1	806,230
Opening balance-exploration	8,584,978	-	-	8,584,978
Amortization	85,756	-	-	85,756
Equipment repairs and rental	8,616	-	-	8,616
Fuel	17,280	-	-	17,280
Labour and benefits	92,067	-	-	92,067
Mapping and sampling	7,470	-	-	7,470
Site administration	4,096			4,096
Supplies and maintenance	14,080	-	-	14,080
Utilities and	6,527	-	-	6,527
Remediation cost	60,000			60,000
Ancillary income	(30,400)	-	-	(30,400)
	8,850,470	-	-	8,850,470
Write off	(180,009)			(180,009)
Balance, May 31, 2014	$ 9,476,689	$ 1	$ 1	$ 9,476,691

For the year ended May 31, 2013:

	Slocan and Sandon BC	Stump Yukon	Haultain Ontario	Milner Ontario	Total
Acquisition Costs					
Opening balance-acquisition	$ 667,230	$ 70,289	$ 1	$ 1	$ 737,521
Option payments-cash	7,500	-	-	-	7,500
Option payments-shares	76,898	-	-	-	76,898
	751,628	70,289	-	-	821,919
Opening balance-exploration	8,422,196	164,827	-	-	8,587,023
Amortization	88,339	-	-	-	88,339
Consulting	2,680	-	-	-	2,680
Equipment repairs and rental	37,500	-	-	-	37,500
Fuel	142,675	-	-	-	142,675
Labour and benefits	659,102	-	-	-	659,102
Mapping and sampling	29,948	-	-	-	29,948
Site administration	17,786	-	-	-	17,786
Supplies and maintenance	184,283	-	-	-	184,283
Utilities and communications	65,013	-	-	-	65,013
Ancillary income	(1,064,544)	-	-	-	(1,064,544)
	8,584,978	164,827	-	-	8,749,805
Less impairments	-	(235,116)			(235,116)
Balance, May 31, 2013	$ 9,336,606	$ -	$ 1	$ 1	$ 9,336,608

8. EXPLORATION AND EVALUATION ASSETS (Continued)

British Columbia Properties

a) Slocan and Sandon Group, British Columbia

The Slocan and Sandon Group covers an area of approximately 100 square kilometers. The claims include legacy claims, crown-granted claims and recently acquired or converted mineral claims. Not all claims are contiguous. One claim group is located approximately 7 km northeast of the Sandon Mill and another claim group is 7 km to the southeast.

On July 7, 2009 and as amended on April 11, 2013 the Company entered into a property option agreement to earn a 100% interest in the Goldsmith property. There is a 2% NSR payable. In order to earn its 100% interest, the Company must:

i) Pay $5,000 (paid) and issue 2,500 shares (issued) upon regulatory approval;
ii) On or before August 24, 2010, pay $10,000 (paid);
iii) On or before August 24, 2011 pay $15,000 (paid);
iv) On amendment issue 17,500 shares (issued);
v) On or before August 24, 2014 pay $70,000 and issue 50,000 shares;
vi) On or before August 24, 2015 pay $20,000 and 50,000 shares;
vii) On or before August 24 of the following four years from 2016 to 2019 pay $20,000.

Subsequent to year end, the Company is in negotiation with the Optionor in regard to an extension of the agreement.

On August 2, 2011, and as amended on September 14, 2012 the Company entered into a property option agreement to earn a 100% interest in the Bakus property. The Company has earned 100% interest in consideration for:

i) Paying $15,000 on or before August 2, 2011 (paid);
ii) Issuing common shares valued at $15,000 (issued) upon regulatory approval; and
iii) Paying $7,500 and issuing common shares valued at $25,000 on or before October 30, 2012 (paid and issued).

On August 3, 2011, and as amended on September 12, 2012 the Company entered into a property option agreement to earn a 100% interest in the Cody Creek property. In order to earn its 100% interest, the Company must:

i) Pay $15,000 (paid) and issue 30,000 shares (issued) upon regulatory approval;
ii) On or before November 24, 2012, issue $25,000 in shares (issued), and issue 30,000 shares (issued);
iii) On or before November 24, 2013 pay $30,000, and issue 40,000 shares;
iv) On or before November 24, 2014 pay $40,000, and issue 50,000 shares.

There is a 1% NSR payable.

The Company decided not to complete the November 24, 2013 cash and share payments after discussions with the Optionor. Subsequent to year end the claims reverted to the Optionor. The Company recorded an impairment provision of $180,009, resulting in a full write-off of the costs related to the claims.

8. EXPLORATION AND EVALUATION ASSETS (Continued)

British Columbia Properties

a) Slocan and Sandon Group, British Columbia (Continued)

On July 9, 2013, the Company acquired the past producing Maddison-Argenta claim located about 0.8 kilometres northeast of Sandon BC. The Company issued 500,000 common shares (issued July 12, 2013) to the Optionor to earn 100% right, title and interest in the property.

Ontario Properties

b) Haultain, Ontario

On May 5, 2006, and as amended on May 13, 2009, the Company entered into a property option agreement to earn a 100% interest in a mineral property located in the Haultain Mining Division in Ontario. The agreement provides for a 2% net smelter royalty ("NSR") of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

i) Pay $80,000 (paid) and issue 15,000 shares (issued);
ii) On or before June 5, 2010, pay $15,000, and issue 3,750 shares.

The Company has neither made the $15,000 payment nor issued 3,750 shares as required under the terms of the option agreement. The option agreement had not been officially terminated, but the Company considers the option agreement to not be in good standing. Therefore, the mineral property spending related to the property was written down by $1,850,764, to a value of $1 at May 31, 2012.

c) Milner Silver, Ontario

On February 5, 2007, and as amended May 13, 2009, the Company entered into two property option agreements to earn a 100% interest in a mineral property located in Milner Township, Ontario. There is a 2% NSR payable, of which half may be purchased for $1,000,000. The Company has earned its 100% interest in one agreement completed on February 25, 2010. The second required payment of $7,000 on or before July 6, 2010.

The Company has not made the $7,000 payment. The option agreement had not been officially terminated, but the Company considers the option agreement to not be in good standing. Therefore, the mineral property spending related to the property was written down by $824,637, to a value of $1 at May 31, 2012.

(Expressed in Canadian dollars)

9. ACCRUED LIABILITIES

Accrued liabilities are summarized as follows:

	Year Ended May 31 2014	2013
Wages and severance	**$ 55,398**	$ 140,559
Professional fees	**20,000**	40,000
Engineering report	**30,000**	30,000
Remediation work	**60,000**	-
Other	**5,908**	23,827
	$ 171,306	$ 234,386

10. RESTORATION PROVISION

The Company has calculated the fair value of the restoration provision as at May 31, 2014 using a pre-tax discount rate of 5.00% (May 31, 2013 – 2.00%). The estimated total future undiscounted cash flows to settle the restoration provision at May 31, 2014 is $142,500 (May 31, 2013 - $85,000). Due to delays in production, management has revised the estimated decommissioning date from 2015 to 2025.

	Year Ended May 31 2014	2013
Balance, beginning of the year	**$ 81,600**	$ 80,000
Accretion	**1,700**	1,600
Balance, end of the year	**$ 83,300**	$ 81,600

The components of this obligation are the removal of equipment currently used at the property as well as costs associated with the reclamation of the camp and work sites on the property. It is the Company's intention to continue exploration work on the property until the claims for key ground expire without extension between 2018 and 2024. The estimate of future asset retirement obligations is subject to change based on amendments to applicable laws, management's intentions, and mineral claim renewals.

The Company may be contingently liable for other decommissioning liabilities. However, such obligations are not recognized since the fair value cannot be reasonably estimated due to the uncertainty of the extent of reclamation and remediation work and the settlement dates.

(Expressed in Canadian dollars)

11. RELATED PARTY BALANCES AND TRANSACTIONS

Related Party Balances consisted of the following*:

	May 31 2014	May 31 2013
Due to current Directors and Officers**	**$ 23,000**	$ 44,150
Due to a company controlled by a Director***	**40,414**	187,550
Due to former Directors and Officers	**588**	48,800
	$ 64,002	$ 280,500

* Unsecured, non-interest bearing, with no fixed terms of repayment.
** $10,000 was settled with shares subsequent to year end on June 2, 2014
*** $25,000 was settled with shares subsequent to year end on June 2, 2014

Related Party Transactions

The Company entered into the following transactions with related parties. All related party transactions were measured at the amount of consideration established and agreed to by the related parties.

a) Under an annual renewable agreement for services and cost recovery, the Company was (credited) charged by a private company controlled by a director;

	Year Ended May 31 2014	2013
Administration fees	**$ (10,000)**	$ 425,000
Automobile rental	**$ 7,500**	$ 37,500
Short-term employee benefits	**$ -**	$ 11,098

The automobile rental charges were capitalized to exploration and evaluation assets. The services to the Company included supervision and administration of the financial requirements of the Company's business, producing quarterly accounts in accordance with public reporting requirements; communicating with various regulatory authorities to ensure compliance with all applicable laws, professional analysis and planning of materials and other documents required to be disseminated, responding to any requests for information and questions; providing secretarial services; office space, office furniture, boardroom facilities, photocopier, fax and such other amenities associated with office needs; and providing such other additional instructions and directions as required. During the year the private company forgave $250,000 in amounts payable and as a result the Company recognized a recovery of $10,000 in administration fees. The agreement was subsequently terminated.

b) Compensation and consulting fees includes $129,000 (2013 - $110,042) to directors, officers and a spouse of a director.

c) The Company paid $64,000 (2013 - $40,000) to a director of the Company for investor relations.

d) Share-based payments of $47,062 were issued to current and former directors and officers, (2013 - $75,459).

e) The Company acquired a vehicle from the spouse of a director during the year for $19,586.

12. MORTGAGE PAYABLE

The Company has a first mortgage on the Rosebery property located in Rosebery British Columbia, Canada, in the amount of $145,000. Interest payments of $1,081 calculated at 8.95% per annum are due monthly. The mortgage balance is payable December 1, 2014.

13. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

b) During the year ended May 31, 2014 the following private placements were completed:

i) In May 2014, the Company closed the first tranche of a private placement for 6,100,000 non flow-through units at a price of $0.05 for total proceeds of $305,000. All units consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share for four years, at a price of $0.07 per share. A director, a private company controlled by a director, and the spouse of a director of the Company participated in this private placement by purchasing a total of 3,870,000 units. Subsequent to year the Company received $21,350 related to subscriptions receivable.

ii) In February 2014, the Company closed the second tranche of a private placement for 7,720,000 non flow-through units at a price of $0.05 and 714,286 flow-through units at a price of $0.07 for total proceeds of $436,000. All units consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share for four years, at a price of $0.07 per share. An officer, a director, a former director, a private company controlled by a director, and the spouse of a director of the Company participated in this private placement by purchasing a total of 3,700,000 non-flow-through units.

iii) In December 2013, the Company closed the first tranche of a private placement for 2,020,000 non flow-through units at a price of $0.05 for total proceeds of $101,000. All units consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share for four years, at a price of $0.07 per share. A director and a private company controlled by a director of the Company participated in this private placement by purchasing a total of 1,650,000 units.

iv) In June 2013, the Company closed the second tranche of a private placement for 1,043,660 non flow-through units at a price of $0.10 for total proceeds of $104,366. All units consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share for four years, at a price of $0.15 per share. The spouse of a director of the Company has participated in this private placement by purchasing a total of 100,000 units.

c) During the year ended May 31, 2013, the following private placement was completed:

In May 2013, the Company closed the first tranche of a private placement for 4,495,000 non flow-through units at a price of $0.10 and 40,000 flow-through units at a price of $0.15 for total proceeds of $451,500. All units consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share for four years with 4,455,000 warrants exercisable at a price of $0.15 per share and 40,000 warrants at a price of $0.20 per share. The warrants were valued at $134,850 in accordance with the residual method.

(Expressed in Canadian dollars)

13. SHARE CAPITAL (Continued)

d) A summary of the changes in warrants follows:

	NUMBER OF WARRANTS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance, May 31, 2012	10,406,472	$ 0.91
Issued	4,495,000	0.15
Expired/Cancelled	(933,915)	2.00
Balance, May 31, 2013	13,967,557	0.86
Issued	17,597,946	0.07
Expired/Cancelled	(985,617)	2.37
Balance, May 31, 2014	**30,579,886**	**$ 0.27**

As at May 31, 2014, the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATES
125,000	$ 3.00	November 10, 2014
650,615	$ 3.00	December 9, 2014
75,000	$ 4.00	January 6, 2015
239,125	$ 4.00	February 21, 2015
10,000	$ 4.00	June 9, 2015
15,000	$ 4.00	July 14, 2015
125,000	$ 4.00	July 14, 2015
1,000,000	$ 0.30	July 20, 2015
1,634,200	$ 0.30	September 12, 2015
1,200,000	$ 0.40	May 18, 2016
3,413,000	$ 0.30	November 2, 2016
40,000	$ 0.20	May 9, 2017
4,455,000	$ 0.15	May 9, 2017
1,043,660	$ 0.15	June13, 2017
2,020,000	$ 0.07	December 17, 2017
8,434,286	$ 0.07	February 3, 2018
6,100,000	$ 0.07	May 11, 2018
30,579,886		

As at May 31, 2014 the weighted average remaining contractual life of the share purchase warrants was 3.05 years (May 31, 2013 – 2.96 years) and the weighted average exercise price was $0.27 (May 31, 2013 - $0.86).

(Expressed in Canadian dollars)

13. SHARE CAPITAL (Continued)

e) Stock Options

The Company has a stock option plan that provides for the issuance of options to its directors, officers, employees and consultants. The maximum number of outstanding options must be no more than 10% of the issued and outstanding shares at any point in time. All options have been granted with a term of five years and were fully vested on the grant date.

On April 24, 2014, the Company granted 750,000 incentive stock options to directors and officers of the Company and 425,000 to employees at a price of $0.065. The fair value of all stock based compensation options granted was estimated on the date of grant in the amount of $60,100 using the Black-Scholes valuation model with the following assumptions i) exercise price per share of $0.065; ii) expected share price volatility of 109%; iii) risk free interest rate of 1.69%; iv) no dividend yield.

On July 3, 2013, the Company granted 150,000 incentive stock options to directors and officers of the Company and 100,000 to employees at a price of $0.10. The fair value of all stock based compensation options granted was estimated on the date of grant in the amount of $14,500 using the Black-Scholes valuation model with the following assumptions i) exercise price per share of $0.10; ii) expected share price volatility of 101%; iii) risk free interest rate of 1.77%; iv) no dividend yield.

On May 9, 2013, the Company granted 1,250,000 incentive stock options to directors and officers of the Company and 650,000 to employees at a price of $0.10. The fair value of all stock based compensation options granted in the year was estimated on the date of grant in the amount of $114,698 using the Black-Scholes valuation model with the following assumptions i) exercise price per share of $0.10; ii) expected share price volatility of 108%; iii) risk free interest rate of 1.26%; iv) no dividend yield.

The following is a summary of the changes in stock options:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding and exercisable at May 31, 2012	-	$ -
Options granted	1,900,000	0.10
Outstanding and exercisable at May 31, 2013	1,900,000	$ 0.10
Options granted	1,425,000	0.07
Options cancelled	(75,000)	0.10
Outstanding and exercisable at May 31, 2014	**3,250,000**	**$ 0.09**

As at May 31, 2014 the weighted average remaining contractual life of the stock options was 4.30 years (May 31, 2013 – 4.94 years) and the weighted average exercise price was $0.09 (May 31, 2013 – $0.10).

(Expressed in Canadian dollars)

13. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

As of May 31, 2014 the following stock options were outstanding and exercisable:

NUMBER OF OPTIONS OUTSTANDING	EXERCISE PRICE	EXPIRY DATES
1,825,000	$ 0.10	May 8, 2018
250,000	$ 0.10	July 2, 2018
1,175,000	$ 0.065	April 23, 2019
3,250,000		

f) Nature and Purpose of Reserves

The reserves recorded in equity on the Company's balance sheet from time to time will include "Contributed Surplus", "Warrant Reserve", and 'Share-based Payment Reserve'

- "Contributed Surplus" recognizes amounts contributed to the Company either by way of direct contribution of cash or assets to the Company or delivery of assets to the Company having a fair value in excess of consideration paid.
- 'Warrant Reserve' recognizes the fair value of share purchase warrants issued as part of unit offerings and warrants issued as compensation for share issuances.
- 'Share-based Payment Reserve' recognizes the fair value of stock option grants prior to exercise, expiry or cancellation and the fair value of other share-based consideration.

14. MANAGEMENT OF CAPITAL

The Company manages its cash, common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account.

There were no changes in the Company's approach to capital management during the year ended May 31, 2014. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at May 31, 2014, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	LEVEL	FVTPL	LOANS AND RECEIVABLES/ AMORTIZED COST	TOTAL CARRYING VALUE	FAIR VALUE
Financial assets					
Cash	1	$ 14,047	$ -	$ 14,047	$ 14,047
Reclamation bonds	2	120,500	-	120,500	120,500
Accounts receivable (a)	2	-	6,497	6,497	6,497
		$ 134,547	$ 6,497	$ 141,044	$ 141,044
Financial liabilities					
Accounts payable and accrued liabilities (a)	2	$ -	$ (407,609)	$ (407,609)	$ (407,609)
Due to related parties (a)	2	-	(64,002)	(64,002)	(64,002)
Mortgage payable (a)	2	-	(145,000)	(145,000)	(145,000)
		$ -	$ (616,611)	$ (616,611)	$ (616,611)

(a) Fair value approximates the carrying amounts due to the short-term nature. The carrying values of the Company's financial liabilities were a reasonable approximation of fair value.

The Company is exposed to potential loss from various risks including commodity price risk, interest rate risk, currency risk, credit risk and liquidity risk. Based on the Company's operations the liquidity risk and commodity price risk are considered the most significant.

a) Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risk associated with fluctuations in the market prices of base and precious metals including gold, silver, zinc and lead, and the outlook for these metals. The Company does not have any hedging or other derivative contracts respecting its operations. Market prices for metals historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company has elected not to actively manage its commodity price risk, as the nature of Company's business is in exploration.

b) Liquidity Risk

The liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through careful management of its financial obligations in relation to its cash position. Using budgeting processes the Company manages its liquidity requirements based on expected cash flow to ensure there are adequate funds to meet the short term obligations during the period. In the past the Company has been able to maintain its liquidity position through private placements. However, the variable market conditions make it uncertain whether the Company can continue to raise adequate funds to meet its financial obligations.

(Expressed in Canadian dollars)

16. INCOME TAXES

a) Provision for Income Taxes

The Company's provision for income taxes for the years ended May 31, 2014 and 2013 differs from the amounts computed by applying the statutory income tax rates to the loss before income taxes as a result of the following:

	2014	2013
Statutory Canadian corporate tax rate	**26%**	25%
Expected current income tax recovery	**$ (163,000)**	$ (348,000)
Effect of change in tax rates	**(73,000)**	-
Non-deductible permanent differences	**26,000**	35,000
Other	**(1,000)**	4,000
Change in tax assets not recognized	**209,000**	309,000
Deferred income tax recovery	**$ (2,000)**	$ -

b) Deferred Income Tax Assets

The estimated tax effect of the significant components within the Company's deferred tax liability was as follows:

	2014	2013
Mineral properties	**$ (579,000)**	$ (579,000)
Non-capital losses carried forward	**2,333,000**	2,143,000
Cumulative eligible capital deductions	**3,000**	3,000
Capital losses	**1,000**	1,000
Capital assets	**285,000**	253,000
Share issue costs	**4,000**	17,000
Tax benefits not recognized	**(2,047,000)**	(1,838,000)
Net deferred income tax assets	**$ -**	$ -

The Company's non-capital losses in the amount of approximately $8,972,000 begin to expire in 2026.

c) Flow-through Resource Expenditures

The Company is permitted, under Canadian income tax legislation, to renounce flow-through related resource expenditures to investors in advance of the Company incurring the expenditure. In accordance with this legislation, the Company has twelve months following the effective date of renunciation to incur the expenditures. The Company begins incurring interest charges for unspent funds after one month and fees for unspent funds at the end of the calendar year following the effective date of renunciation, and until such time as funds are fully expended.

17. SUBSEQUENT EVENTS

a) On March 4, 2014, the Company announced a private placement to raise up to $800,000 through the issuance of up to 16,000,000 flow-through and non flow-through units at a price of $0.07 and $0.05 per unit respectively. Each unit consisted of one flow-through or one non flow-through common share and one non flow-through, non-transferable share purchase warrant. Each warrant will entitle the holder to purchase one additional common share for a period of four years at a price of $0.07 per share. On June 2, 2014 the final tranche of 2,590,000 non flow-through units was closed for total proceeds of $129,500.

b) On June 3, 2014 the Company granted 350,000 stock options at $0.07 to directors and 500,000 stock options at $0.07 to employees and consultants of the Company. These options expire on June 29, 2019.