



FOR THE THREE MONTHS ENDED MARCH 31, 2014
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in United States Dollars, unless otherwise stated)

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Notice of no auditor review of interim financial statements:

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim unaudited condensed consolidated interim financial statements of the Company have been prepared by, and are the responsibility of, the Company's management. The Company's independent auditor has not performed a review of these financial statements



CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(unaudited, expressed in United States Dollars)

	March 31	December 31
	2014	2013
ASSETS	\$	\$
Current assets		
Cash	3,075,828	289,349
Cash receivable from Arrangement (note 7)	-	4,221,730
Accounts receivable	294,084	221,009
Prepaid expenses	43,611	12,817
Total current assets	3,413,523	4,744,905
Mineral property costs (note 7 & 9)	21,475,049	21,407,811
Security deposits (note 9)	166,424	166,424
Capital assets (note 10)	844,757	845,730
Total assets	25,899,753	27,164,870
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	879,131	1,384,361
Conversion feature on debentures payable (note 11)	188,247	195,656
Warrants Payable (note 13)	364,129	378,459
	1,431,507	1,958,476
Debentures payable (note 11)	734,269	740,758
Contingent Consideration (note 7)	6,734,951	7,000,000
Total liabilities	8,900,727	9,699,234
Shareholders' Equity		
Share capital (note 12a)	53,251,251	42,858,892
Shares to be issued from Acquisition Transaction (note 12b)	-	10,387,828
Contributed Surplus (note 12c)	6,654,698	6,654,698
Warrants (note 13)	108,381	108,381
Deficit	(43,015,304)	(42,544,163)
Total shareholders' equity	16,999,026	17,465,636
	25,899,753	27,164,870

Nature of operations (Note 1)

Going concern (Note 2)

Mineral property commitments (Note 9)

Approved on behalf of the Board

"Edward J. Munden" Director "Barry Hildred" Director



**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND
COMPREHENSIVE LOSS**

(unaudited, expressed in United States Dollars)

For the three months ended March 31	2014	2013
	\$	\$
Expenses		
Administrative expenses (<i>note 16</i>)	242,191	237,386
Mineral property exploration expenses	189,993	60,248
Finance charges (<i>note 17</i>)	38,956	1,925
Loss from operations	471,140	299,559
Net loss and comprehensive loss for the year	471,140	299,559
Loss per common share		
Basic and diluted loss per share	0.00	0.00
Weighted average number of common shares outstanding	183,185,512	90,945,168



CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 (unaudited, expressed in United States Dollars)

	Share Capital		Issuable Share Capital		Contributed Surplus	Warrant	Deficit	Total
	Number	\$	Number	\$	\$	\$	\$	\$
Balance, December 31, 2012	90,739,168	42,430,879	-	-	5,351,640	199,778	(35,105,226)	12,779,229
Share based payments	-	-	-	-	36,555	-	-	36,555
Options expired	-	-	-	-	(17,004)	-	17,004	-
Net loss for the period	-	-	-	-	-	-	(299,559)	(299,559)
Balance, March 31, 2013	90,945,168	42,430,879	-	-	5,370,148	199,778	(40,226,376)	7,774,429
Common shares issued from private placement	5,890,000	579,752	-	-	-	-	-	579,752
Share issue costs	-	(20,055)	-	-	-	-	-	(20,055)
Fair value assigned to warrant	-	(264,604)	-	-	-	18,000	-	(246,604)
Shares issued as compensation	826,494	82,395	82,443	9,526	-	-	-	91,921
Shares issued pursuant to Arrangement	-	-	64,825,568	7,923,370	-	-	-	7,923,370
Shares issued pursuant to HMI Acquisition	-	-	18,650,193	2,279,538	-	-	-	2,279,538
Shares granted pursuant to Arrangement	-	-	1,435,000	175,394	-	-	-	175,394
Share based payments pursuant to Arrangement	-	-	-	-	1,271,621	-	-	1,271,621
Warrants granted pursuant to Arrangement	-	-	-	-	-	12,035	-	12,035
Share based compensation	-	-	-	-	107,295	-	-	107,295
Shares issued for debt	506,035	50,525	-	-	-	-	-	50,525
Options expired	-	-	-	-	(94,366)	-	94,366	-
Warrants expired	-	-	-	-	-	(121,432)	121,432	-
Net loss for the period	-	-	-	-	-	-	(2,533,585)	(2,533,585)
Balance, December 31, 2013	98,167,697	42,858,892	84,993,204	10,387,828	6,654,698	108,381	(42,544,163)	17,465,636



CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 (Unaudited. expressed in United States Dollars)

	Share Capital		Issuable Share Capital		Contributed Surplus	Warrant	Deficit	Total
	Number	\$	Number	\$	\$	\$	\$	\$
Balance, December 31, 2013	98,167,697	42,858,892	84,993,204	10,387,828	6,654,698	108,381	(42,544,163)	17,465,636
Shares issued as compensation	82,443	9,526	(82,443)	(9,526)	-	-	-	-
Shares issued pursuant to Arrangement	64,825,568	7,923,370	(64,825,568)	(7,923,370)	-	-	-	-
Shares issued pursuant to HMI Acquisition	18,650,193	2,279,538	(18,650,193)	(2,279,538)	-	-	-	-
Shares granted pursuant to Arrangement	1,435,000	175,394	(1,435,000)	(175,394)	-	-	-	-
Shares issued for compensation	40,273	4,531	-	-	-	-	-	4,531
Net loss for the period	-	-	-	-	-	-	(471,141)	(471,141)
Balance, March 31, 2014	183,201,174	53,251,251	-	-	6,654,698	108,381	(43,015,304)	16,999,026



CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Expressed in United States Dollars)

For the three months ended December 31	2014	2013
	\$	\$
Cash flow from operating activities		
Net loss for the period	(471,141)	(277,281)
Items not involving cash		
Amortization	891	3,700
Share based compensation	-	36,355
Accretion	20,145	-
	(450,105)	(237,226)
Changes in non-cash working capital		
Accounts receivable	(73,074)	(11,508)
Prepaid expenses	(30,796)	632
Accounts payable and accrued liabilities	(525,293)	225,381
Debenture conversion feature	(7,408)	-
Warrant payable	(14,330)	-
Contingent consideration	(265,050)	-
Accounts payable and accrued liabilities	(6,489)	-
Cash receivable from arrangement	4,221,730	-
Cash flow used in operating activities	2,849,185	(22,721)
Cash flow from investing activities		
Increase in mineral properties	(67,238)	(114,010)
Cash flow used in investing activities	(67,238)	(114,010)
Cash flow from financing activities		
Issuance of common shares, net of share issue costs	4,532	-
Cash flow from financing activities	4,532	-
Increase (decrease) in cash	2,786,479	(136,731)
Cash, beginning of period	289,349	223,484
Cash, end of period	3,075,828	86,753



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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1. Nature of Operations

Aquila Resources Inc. (the "Company" or "Aquila") was incorporated under the Business Corporations Act ("Canada") and is involved in the mineral exploration business. The Company's head office address is 50 Richmond Street East, Suite 300, Toronto Canada, M5C 1N7.

The Company is listed on the Toronto Stock Exchange under the symbol "AQA", on the Frankfurter Wertpapierbörse under the symbol "JM4A", and on the American OTC Pink Sheets under the symbol "AQARF" and is in the business of exploring for and developing mineral properties. Substantially all of the efforts of the Company are devoted to these business activities.

Although the Company has taken steps to verify title to the 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 government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

The financial statements were approved and authorized for issuance by the Board of Directors on May 14, 2014.

2. Going Concern

The Company's ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

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

The Company has invested in Back Forty Joint Venture LLC ("BFJV") (note 7). This investment holds a property for which a Preliminary Economic Assessment Technical Report (PEA) was issued in April 2012. Effective July 3, 2012 HudBay Minerals Inc. ("HudBay"), which had the controlling interest in the BFJV, suspended its exploration and evaluation activities at the Back Forty Project. On November 7, 2013, the Company signed a definitive agreement with HudBay to effectively take back control and 100% ownership of the BFJV. (See note 8).

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying condensed consolidated interim financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations.



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These conditions indicate the existence of material uncertainties that may cast doubt about the Company's ability to continue as a going concern.

Details of deficit and working capital of the Company are as follows:

	March 31, 2014	December 31, 2013
	\$	\$
Deficit	43,015,304	42,544,163
Working capital	1,982,016	2,786,429

3. Basis of Presentation and Consolidation

The condensed consolidated interim financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and included in Part 1 of the Handbook for the Canadian Institute of Chartered Accountants. These condensed consolidated interim financial statements have been prepared on a going concern basis, under the historical cost basis, except that the following assets and liabilities are stated at their fair value: Financial instruments classified at fair value through the profit and loss. These condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These condensed consolidated interim financial statements include the accounts of the Company and all of its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain variable benefits from its power over the entity's activities. Subsidiaries are included in the condensed consolidated interim financial results of the Company from the effective date of acquisition of control up to the effective date of disposal or loss of control. The Company's principal subsidiaries are Aquila Resources USA Inc. and Aquila Michigan Inc. (previously known as HudBay Michigan Inc.), which are located in Michigan USA, as well as REBgold Corporation located in Canada. All inter-company balances and transactions have been eliminated.

These condensed consolidated interim financial statements are expressed in US Dollars, except those amounts denoted CDN\$ which are in Canadian Dollars. The United States dollar is the functional and reporting currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate at the time of the transaction. Any resulting gain or loss is recorded in the statement of loss and comprehensive loss.



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4. Significant Accounting Policies

The accounting policies as reported in Notes 3 and 4 to the audited annual consolidated financial statements for the year ended December 31, 2013, have been applied consistently in preparing these condensed consolidated interim financial statements, except for new accounting policies adopted effective January 1, 2014 (Note 5).

Critical Accounting Estimates, Risks and Uncertainties

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates. The key sources of judgment and estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

i) *Impairments of mineral property costs.*

While assessing whether any indications of impairment exist for mineral property costs, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral property costs. Internal sources of information include the manner in which mineral property costs are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mineral properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral property costs.

ii) *Income taxes and recoverability of potential deferred tax assets*

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



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iii) Share-based payments

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

iv) Business Combination versus Asset Acquisition

The assessment of whether an acquisition is considered to meet the definition of a business requires judgment in establishing whether the set of activities acquired represent an integrated set of activities and assets that are capable of being conducted and managed for the purpose of providing a return. Where the acquired operations do not consist of inputs and processes with the ability to create outputs, the definition of business is not met, and the acquisition is treated as an asset acquisition.

v) Date of Acquisition

There was judgment involved in determining the date of acquisition relating to the Arrangement as the date on which legal approval was received was different from the date of management acquiring effective control. See note 8 for additional information.

vi) Contingent Consideration

The valuation of contingent consideration relies on several estimates, which include the commencement date of development activities, discount rates on present value calculations and projected annual production estimates.

vii) Functional Currency

The determination of functional currency involves evaluation of numerous factors including, denomination of key expenditures, mind and management, operational locales, and currencies relating to key financing.

5. New Accounting Standards Adopted During The Year

IAS 36 Impairment of Assets was amended by the IASB in June 2013. Recoverable Amount Disclosures for Non-Financial Assets amended certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment is effective for annual periods beginning on or after January 1, 2014. The Company has adopted these policies and there were no material effects on the financial statements.

6. Future Accounting Pronouncements

IFRIC Interpretation 21 Levies was issued by the IFRIC in May 2013. The Interpretation on the accounting for levies imposed by governments clarifies the obligating event that gives rise to a liability to pay a levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial



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asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is available for application; however, previous mandatory effective date of January 1, 2015 has been removed as the IASB decided that this date would not allow sufficient time for entities to apply the new standard because the impairment phase of the IFRS 9 has not yet been completed. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion.

Management is currently assessing the impact of these amendments.

7. Acquisition Transaction - REBgold Corporation and HudBay Michigan Inc.

On December 30, 2013 separate special shareholders' meetings were held by the shareholders of Aquila and the shareholders of REBgold Corporation ("REBgold"), to approve the transactions involving Aquila and REBgold, and the proposed acquisition by Aquila of the 51% interest in the Back Forty Project in Michigan currently held by HudBay Minerals Inc, as well as the REBgold financing as detailed below. Both shareholder meetings overwhelmingly approved all resolutions to approve the transactions. The details of the transactions are as follows:

- i. a statutory plan of arrangement pursuant to which the Company acquired all of the outstanding shares of REBgold in exchange for shares of the Company on a 1-for-1 basis (the "Arrangement");
- ii. the non-brokered private placement of REBgold shares for gross proceeds of approximately CDN\$4.85 million (the "REBgold Financing"). Pursuant to the REBgold Financing, Baker Steel Capital Managers LLP, on behalf of investment funds managed or controlled by it ("Baker Steel"), REBgold's larger shareholder, invested CDN\$4.5 million of such gross proceeds. Proceeds from the REBgold Financing will be used for general working capital and to fund the next phase of development activity at Back Forty; and
- iii. the acquisition of 100% of the shares of HudBay Michigan Inc. ("HMI"), a subsidiary of HudBay Minerals Inc. ("HudBay"), effectively giving Aquila 100% ownership in the Back Forty Project (the "HMI Acquisition"). Pursuant to the HMI Acquisition, HudBay's 51% interest in the Back Forty Project was acquired in consideration for the issuance of common shares of Aquila, future milestone payments tied to the development of the Back Forty Project and a 1% net smelter return royalty on production from certain land parcels in the project.

The Acquisition Transactions closed on January 16, 2014. Pursuant to the REBgold Financing, REBgold issued a total of 37,300,385 shares at a price of CDN\$0.13 cents per share for gross proceeds of approximately CDN\$4.85-million. All shares issued pursuant to the REBgold Financing were immediately exchanged for Aquila shares on a one-for-one basis in accordance with the terms of the Arrangement. In connection with the issuance of 2,285,000 REBgold shares for gross proceeds of CDN\$297,050 as part of the REBgold Financing, REBgold paid broker compensation consisting of: (i) a cash commission equal to 7 % of the gross proceeds related to such subscriptions; and (ii) non-transferable broker warrants to purchase a total of CDN\$159,950



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REBgold shares (representing 7% of the REBgold shares related to such subscriptions) at a price of CDN\$0.15 per share for two years from the closing of the REBgold Financing. As a result of completion of the Arrangement, each broker warrant became exercisable for one Aquila share at a price of CDN\$0.15 cents per share.

Immediately prior to completion of the Arrangement and related transactions, there were 64,825,568 REBgold shares outstanding (including shares issued pursuant to the REBgold Financing). All of these shares were exchanged for Aquila shares pursuant to the Arrangement on a one-for-one basis.

In connection with HMI Acquisition, Aquila issued 18,650,193 shares to HMI in satisfaction of the portion of the purchase price for HMI that was payable on closing.

Post closing capital structure and effective date of transaction

Upon completion of the Arrangement, REBgold became a wholly-owned subsidiary of Aquila. REBgold Shares were delisted from the TSXV following completion of the Arrangement and REBgold has ceased being a reporting issuer.

Immediately following completion of the Arrangement, the REBgold Financing and the HMI Acquisitions, there were 183,160,901 Aquila shares outstanding together with outstanding stock options, convertible debentures and warrants that will collectively be exercisable for up to approximately 27.6 million Aquila shares.

As Aquila was able to exercise control as of December 30th, 2013, management has determined that HMI and REBgold should be consolidated from this date onwards, as it represents the date on which the acquirer has gained control of the acquirees. In addition, Baker Steel had provided a letter of commitment on the financing by this date, ensuring one of the key conditions on the transaction was in place. While final approval had not yet been received from the courts until January 7, 2014, the remaining authorization was considered administrative in nature, as all other major precedents conditional to the transaction occurring had been completed. Accordingly, the transactions have been reflected as of December 30th, 2013. As the shares were not legally issued until after year-end, they have been reflected as shares to be issued.

Transaction compensation costs include issuance of shares and disbursement of cash, as well as the issue of stock options to directors, consultants and officers for both REBgold and Aquila. These costs totaled \$1,031,895 of which \$284,000 was disbursed through cash. Costs relating to past service are incremental to the transactions, have been reflected as part of the consideration given on the acquisition.



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Acquisition of REBgold:

The transaction was accounted for as an asset acquisition as it did not meet the definition of a business under IFRS 3. The purchase consideration was as follows:

	Number of Shares	Value \$
Common shares by Aquila issued on Acquisition	64,825,568	7,923,370
Transaction costs		950,657
Total Consideration given		8,874,027

The allocation of the purchase price to the assets acquired and liabilities assumed is based upon estimated values at the date of acquisition, as set out below.

	Value \$
Cash and cash equivalents	129,084
Cash realized in Arrangement	4,506,611
Other receivables	158,353
Capital Asset	2,236
Mineral property	5,513,104
Accounts payable and accrued liabilities	(343,503)
Conversion feature on convertible debenture	(195,656)
Warrant liability	(143,409)
Long term debenture payables	(740,758)
Warrant reserve from REBgold Financing	(12,035)
Net assets and liabilities acquired	8,874,027

Acquisition of HMI:

The transaction was accounted for as an asset acquisition as it did not meet the definition of a business under IFRS 3. The purchase consideration was as follows:

	Number of Shares	Value \$
Common shares of Aquila issued to HudBay Minerals Inc.	18,650,193	2,279,538
Fair value of future installment payments		3,700,000
Fair value of 1% NSR royalty		3,300,000
Transaction costs		320,044
Total Consideration given		9,599,582



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The consideration to acquire 100 per cent of the shares of HudBay Michigan Inc., HudBay’s wholly owned subsidiary, which owns the 51% share in the BFJV is made up of the following:

- \$2.28-million of Common Shares of Aquila: this was determined to be the lessor of CDN\$2.5-million or 50 per cent of the REBgold Financing issued upon closing of the Back Forty acquisition. Pricing of shares was at the of the REBgold Financing;
- Fair value of future installments is based on CDN\$9.0 million in future installments tied to development of the Back Forty Project as follows:
 - i. CDN\$3.0 million payable upon completion of any form of financing for purposes including the commencement of construction of Back Forty (up to 50 per cent of such amount to be payable, at Aquila's option, in Aquila shares with the balance payable in cash);
 - ii. CDN\$2.0 million in cash payable 90 days after the commencement of commercial production;
 - iii. CDN\$2.0 million in cash payable 270 days after commencement of commercial production;
 - iv. CDN\$2.0 million in cash 450 days after commencement of commercial production;
- Fair value of the 1 per-cent net smelter return (NSR) royalty on production from certain land parcels on the Back Forty property, capped at CDN\$7-million.

Key estimates on the valuation, using discounted cash flow model, of the contingent consideration were a 25% discount rate for the milestone payments and an 8% discount rate on the NSR. The milestone payments are estimated to commence in 2015 with production starting in 2018. When performing a sensitivity analysis, if discount rates used in the valuation were increased or decreased by 1%, the impact on the fair value of the contingent consideration would be an increase or decrease of an estimated \$375,000. If another key assumption, being the commencement of the milestone payments and the commencement of production, were respectively pushed to 2016 and 2019, the impact on fair value would be a decrease of an estimated \$990,000.

The allocation of the purchase price to the assets acquired and liabilities assumed is based upon estimated values at the date of acquisition, as set out below.

	US \$
Cash and cash equivalents	93,456
Mineral property	9,507,550
Capital assets	192,779
Accounts payable and accrued liabilities	(194,203)
Net assets and liabilities acquired	9,599,582

8. Investment in Back Forty Project

During 2012, the Company transferred its interest in the Back Forty Project to a limited liability company called Back Forty Joint Venture LLC (“BFJV” and as described in Note 10- Mineral Properties - Back Forty). In consideration of the transfers of their respective property interests, the Company and HudBay took back a 49% and 51% interest, respectively, in BFJV. The Company accounted for the transaction as a transfer between mineral properties and investments at carrying value during 2012. The Company has significant influence over BFJV and accounted for the investment using the equity method.



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The Mineral property costs accumulated by the Company on the Back Forty Project up to the time it acquired the 49% interest in BFJV on March 9, 2012 amounted to \$9,294,235, and that amount has been reflected as the Company's Investment in BFJV. This initial investment amount is adjusted based on the Company's share of the income or losses reported by BFJV.

Opening Balance, Investment in BFJC	\$ 9,294,235
Plus 49% of annual loss from 2012 from BFJV	(2,672,870)
Ending Balance, December 31, 2012	6,621,365
Add 49% of annual loss from 2013	(381,220)
Transfer to Mineral property	(6,240,145)
Ending Balance, December 30, 2013	-

On December 30, 2013 the Company effectively controlled 100% of the Back Forty Project and changed the classification of the investment to mineral property.

9. Mineral Property Costs

Period ended	Balance beginning of period	Acquisition	Acquisitions	Adjustment/ Write-off	Balance end of period
March 31, 2014	\$	\$	\$	\$	\$
Back Forty Project	15,747,695	36,321	-	-	15,784,016
REBgold acquisition	5,513,104	13,115	-	-	5,526,219
Reef	147,012	17,802	-	-	164,814
Bend**	-	-	-	-	-
	21,407,811	67,238	-	-	21,475,049

Total accumulated deferred mineral property costs, and property descriptions, are detailed as follows:

Year ended	Balance beginning of period	Acquisition	Acquisitions (note 7)	Adjustment/ Write-off	Balance end of period
December 31, 2013	\$	\$	\$	\$	\$
Back Forty Project	-	-	9,507,550	6,240,145	15,747,695
REBgold acquisition	-	-	5,513,104	-	5,513,104
Reef	101,051	45,961	-	-	147,012
Bend**	-	-	-	-	-
Exploration Alliance	-	12,162	-	(12,162)	-
Other	233,696	6,000	-	(239,696)	-
	334,747	64,123	15,020,654	5,988,287	21,407,811

**Formerly an Exploration Alliance property



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(a) Back Forty Project

The Back Forty Project (the "Project") controls approximately 7,600 acres of surface and mineral rights which are owned or held under lease or option by BFJV. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2% - 7% state royalty, which under state law can be renegotiated. The Project is subject to a 7% net distributable earnings royalty ("Net Profits after Payback") payable to a former joint venture partner.

On August 6, 2009, the Company signed a Subscription, Option and Joint Venture Agreement (the "Agreement") with HudBay Minerals Inc. ("HudBay"). Under the terms of the Agreement (and a follow-on Operating Agreement), the following events occurred and came into effect:

- i. As of August 31, 2010 HudBay earned a 51% interest in the Project by exceeding \$10 million in aggregate expenditures on the Project over a 3 year period.
- ii. Pursuant to the Agreement, on March 9, 2012 HudBay and the Company transferred their interests in the Project to BFJV, a limited liability company. BFJV was owned 49% by the Company, and 51% by HudBay via its wholly owned subsidiary HudBay Michigan Inc. The affairs of BFJV were governed by an Operating Agreement entered into by the Company and HudBay, the terms of which mirror the original Subscription, Option and Joint Venture Agreement the Company had with HudBay.

During 2012, the Company transferred its interest in the Back Forty Project ("the Project") to a limited liability company, Back Forty Joint Venture LLC ("BFJV") as contemplated under an operating agreement ("Operating Agreement") signed by the Company and Hudbay. The Company accounted for the transaction as a transfer between mineral properties and investments at carrying value. The Company has significant influence over BFJV and accounts for the investment using the equity method.

The Mineral property costs accumulated by the Company on the Back Forty Project up to the time it acquired the 49% interest in BFJV on March 9, 2012 amounted to \$9,294,235, and that amount has been reflected as the Company's Investment in BFJV.

On July 3, 2012 the Company announced it had been informed by Hudbay that it had decided to suspend its development activities on the Back Forty Project and would be considering its strategic alternatives with respect to the Project.

On November 7, 2013 the Company signed an agreement, along with REBgold, with HudBay Minerals Inc. to buy back the 51% ownership interest in the Back Forty Joint Venture. Please refer to Note 8 - Acquisition Transactions- REBgold and HudBay Michigan Inc..

As of December 30, the Company effectively owns 100% of the Back Forty Joint Venture through its 100% share ownership in HudBay Michigan Inc. which owns 51%, and the 49% directly held by the Company in the BFJV.



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Estimated lease, option and property acquisition costs related to the Back Forty Project for 2014 to 2017, for which the Company is materially liable throughout the duration of the agreement, are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$1,498,228
2015	\$1,585,384
2016	\$320,718
2017	\$148,053

(b) Bend (*previously known as Exploration Alliance*)

On October 15, 2010, the Company signed an Exploration Alliance agreement with HudBay. Under the agreement HudBay funded exploration conducted by the Company (as Project Operator) in Michigan and other designated areas. HudBay made an initial advance to the Company of \$250,000, which the Company used to identify exploration properties. The Company was obligated to present HudBay with a minimum of five exploration targets. Subject to an approval process under the agreement HudBay would fund any such target up to \$2,000,000, following which the parties would form a 50/50 joint venture with respect to the target property. HudBay would then be able to increase its interest on each target to 65% by funding and completing a feasibility study and required mine permit applications.

During 2011 the Company presented five qualifying target properties to HudBay as required by the agreement. The Company and HudBay agreed to proceed with four of them. HudBay made a second advance to the Company of \$250,000, under which the Company was to seek out an additional five target properties. The advances were non-refundable and were reduced dollar for dollar as expenditures were incurred on target properties.

On July 3, 2012 HudBay notified the Company of its intent to terminate the Exploration Alliance agreement. As a result of the termination:

- (i) The Company maintained a 100% interest in three properties (properties known as Sturgeon Falls, Five Mile Lake and Bend), that were formerly Exploration Alliance properties, subject to a back-in right on the Bend Property under which HudBay has a right to re-acquire its interest; should HudBay exercise its right it could achieve up to a 65% interest in the Bend property. The back-in right is exercisable no later than July 18, 2014.
- (ii) There was a balance outstanding on the second advance in the amount of \$142,606 effective as of the notification date that was included in the December 31, 2012 consolidated statement of loss and comprehensive loss, as interest and other income.
- (iii) There are no further obligations to HudBay in connection with the Exploration Alliance.

During the year ended March 31, 2014 the Company terminated the agreements for the Sturgeon Falls, and Five Mile Lake properties and as a result wrote off \$12,162 of deferred costs. The remaining value on the former Exploration Alliance properties at March 31, 2014 as pertains entirely to the Bend property reflect no amount, though the Company is continuing on its own with this project.



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(d) Reef Gold Project

The Company entered into a series of agreements with private landholders in Marathon County, Wisconsin for the optioning of surface and mineral rights. The agreements consist of mining leases and exploration agreements with an option to purchase. Currently there are a total of 803 acres under these agreements which have terms from 2 to 20 years up to 2031.

A variable net smelter royalty up to 2% is payable in the event of mineral production on the property. Estimated lease and/or option costs related to the Reef Project for 2014 to 2017, which are at the Company's option, are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$28,200
2015	\$419,381
2016	\$39,531
2017	\$39,531

(e) Other – Vindicator and Moose Pasture

The company owns exploration rights to two early stage gold properties located in the Carolina Slate Belt. They are prospective given their geological locations and associated anomalous gold values. The Royal Vindicator property is located in Haralson County, Georgia where the Company has acquired a 100% interest in approximately 600 acres. The Moose Pasture property is in Anson County, North Carolina where the Company has acquired 917 acres of mineral and surface rights.

During the year ended December 31, 2013 the Company decided not to maintain the Vindicator and Moose Pasture properties and as a result wrote off \$239,696 of capitalized acquisition costs that had been incurred on those properties.

(f) Finland – Rantasalmi and Kiimala Properties

In July 2011, REBgold (a subsidiary of Aquila) entered into a definitive Shareholders' Agreement as contemplated by the Letter of Intent ("LOI"), signed in March 2011 with Belvedere Resources Finland oy ("BelFin"), a wholly-owned subsidiary of Belvedere Resources ("Belvedere", TSX.V:BEL) for REBgold to earn an interest in two of BelFin's gold properties in Central Finland, the Kiimala and Rantasalmi properties (the "Properties").

Under the terms of the Shareholders' Agreement, REBgold has the right to earn up to a 50% interest (in increments of 1%) in a special purpose joint venture company which holds the Kiimala and Rantasalmi projects by contributing expenditures of CDN \$6.0 million in a 4 year period. During the first year, REBgold must spend a minimum of CDN \$1.5 million on the Properties. After the earn-in has been completed, REBgold can increase its interest to between 55% and 75%, depending on the level of BelFin's contribution to a Feasibility Study. A further 5 per cent can be earned if REBgold's bioleaching technology can lead to a material improvement in the project economics.

All contributions made are recorded to the respective property until such time as they qualify for a 1% share interest in the joint venture. As at March 31, 2014, the cumulative contributions made by REBgold to the joint venture were CDN\$2,302,761. REBgold has earned and received a total of



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18% ownership interest in BRGM to date. The interest continues to be classified as acquisition costs.

As at March 31, 2014, REBgold had contributed an additional CDN\$142,725 which may be attributed toward the next incremental 1% ownership interest valued at CDN\$120,000.

10. Capital Assets

Cost	Land \$	Buildings \$	Furniture and Fixtures \$	Total \$
Balance December 31, 2012	380,880	348,238	31,361	760,479
Acquisition REBgold Corporation (note 7 & 9)	-	-	2,236	2,236
Acquisition HudBay Michigan Inc. (note 7 & 9)	-	192,779	-	192,779
Adjustment	-	-	(215)	(215)
Balance, December 31, 2013 and March 31, 2014	380,880	541,017	33,382	955,279

Accumulated depreciation	Land \$	Buildings \$	Furniture and Fixtures \$	Total \$
Balance December 31, 2011	-	81,417	20,526	101,943
Adjustment	-	-	(215)	(215)
Additions	-	5,172	2,649	7,821
Balance December 31, 2012	-	86,589	22,960	109,549
Adjustment	-	-	83	83
Additions	-	-	890	890
Balance, March 31, 2014	-	86,589	23,933	110,522

Net book value, December 31, 2012	380,880	266,821	10,835	658,536
Net book value, December 31, 2013	380,880	454,428	10,422	845,730
Net book value, March 31, 2014	380,880	454,428	9,449	844,757

(A) During 2012 an office building was sold for \$220,000, giving rise to a gain on sale of \$25,095



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11. Debentures Payable

	As at March 31 2014	As at December 31 2013
	\$	\$
Convertible debenture maturing April 2, 2015	391,480	394,940
Convertible debenture maturing April 13, 2015	342,781	345,818
Total debentures payable	734,269	740,758

Convertible Debenture Maturing April 2, 2015

On April 2, 2013, REBgold (a subsidiary of the Company) closed CDN\$510,000 of convertible debentures bearing interest at 8% per annum, compounded and payable upon the maturity date of April 2, 2015. The debentures are convertible into common shares by the holders at any time at a price of CDN\$0.15 per common share. Debenture is not redeemable by the Company.

Convertible Debenture Maturing April 13, 2015

On October 13, 2010, REBgold closed CDN\$430,000 convertible, redeemable debentures that bear interest at a fixed rate of 18% per year and are convertible into 430,000 common shares of the Company at a price of \$1.00 per share. In addition, REBgold issued 430,000 common share purchase warrants to the debenture holders with an exercise price of CDN\$1.20.

On December 6, 2010 REBgold completed a Plan of Arrangement with a company called BacTech Environmental Corporation (“BEC”), whereby BEC assumed 20% of the debenture obligation from REBgold. On December 6, 2010, 20% of the book value of the debenture obligation was CDN\$66,642; this would accrete to CDN\$86,000 over the remaining life of the debenture. Upon maturity, REBgold would repay the debenture obligation and accrued interest to the debenture holders and receive from BEC 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity.

On April 17, 2012, REBgold extended the maturity date of the CDN\$410,000 principal amount of the outstanding convertible debentures and 410,000 common share purchase warrants described in Note 14, with an original maturity date of April 13, 2012, to April 13, 2015.

The debentures were measured on the acquisition of REBgold at their fair value, with the conversion feature considered to be an embedded derivative, being valued first, and the residual assigned to the debentures.

The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of the Canadian dollar conversion option of the debenture:

For the periods ended	2014 -2013
Risk-free interest rate	1.01 - 1.62%
Expected life	1 year
Price volatility	70-106%
Share price (CDN \$)	0.09 to 0.13
Dividend yield	Nil



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12. Share Capital

A. Authorized

Unlimited number of common shares.

Issued and outstanding:

	Number of Share	Total \$
December 31, 2012	90,945,168	42,430,879
December 31, 2013	98,167,697	42,858,892
March 31, 2014	183,201,174	53,251,251

1. During the year ended December 31, 2013 the Company completed a private placement and issued 5,890,000 units consisting of a common share and a half warrant at a price per unit of CDN \$0.10 for gross proceeds of \$579,753. Each full warrant entitles the holder to purchase a common share of the Company for a period of 5 years from date of issue at an exercise price of DN \$0.20 per share. In addition 183,750 broker warrants were issued entitling the holder to purchase a common share of the Company for a period of 5 years from date of issue at an exercise price of DN \$0.12 per share. Cash share issue costs in the amount of \$20,055 were incurred. A fair value of \$264,604 was estimated and assigned to the warrants. The fair value was estimated using the Black-Scholes valuation model under the following assumptions; risk free interest rate 1.66%, expected life 5 years, price volatility 123%, share price CDN \$0.105, dividend yield nil. The Company estimated volatility based on the Company's five year historical volatility prior to the grant.
2. During the year ended December 31, 2013, 826,494 common shares were issued with a value of 82,395. In 2014, 82,443 common shares are issuable with value \$9,525. The shares were issued under a compensation agreement and the value was equal to the value of the services received.
3. During the year ended March 31, 2014 506,035 common shares were issued with a value of \$50,525. The shares were issued in satisfaction of obligations payable to vendors for services rendered. The value was equal to the value of the services.
4. During the period ended March 31, 2014, 40,273 common shares were issued with a value of \$4,531. The shares were issued under a compensation agreement and the value was equal to the value of the services received.

B. Shares Issuable under Plan of Arrangement and Acquisition of HudBay Michigan Inc.

1. As per the terms of the Plan of Arrangement explained in Note 8 to the financial statements, Aquila issued 64,825,568 shares in exchange for all of the outstanding shares of REBgold.
2. As per the terms of the arrangement explained in Note 8 to the financial statements, Aquila issued 18,650,193 to HudBay Minerals Inc. for the acquisition of 51% of the Back Forty Joint Venture LLC.
3. In conjunction with the notes 1 and 2 above, Aquila issued 1,435,000 shares granted to directors, officers and consultants of Aquila and REBgold.



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C. Stock-option plan and share-based compensation:

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company and its subsidiaries in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options to acquire an increased proprietary interest in the Company. Under the Plan, options are non-assignable and may be granted for a term not exceeding five years. The number of common shares that may be reserved for issuance to any one person must not exceed 5% of the outstanding common shares. The exercise price of an option may not be lower than the closing price of the common shares on the TSX, subject to applicable discounts, on the business day immediately before the date the option is granted. The options are non-transferable.

A summary of the Company's stock option, and changes during the period ended March 31, 2014 and for the year ended December 31, are presented below:

	March 31, 2014		December 31, 2013	
	Options	Weighted average exercise price (CDN \$)	Options	Weighted average exercise price (CDN \$)
Balance outstanding January 1	14,310,000	\$ 0.16	3,722,250	\$ 0.50
Exercised	-	-	-	-
Expired	-	-	(197,250)	0.66
Granted	-	-	1,875,000	0.15
Cancelled from Plan of Arrangement	-	-	(4,615,000)	0.37
Granted from Plan of Arrangement	--	-	13,525,000	0.15
Balance outstanding end of year	14,310,000	\$ 0.16	14,310,000	\$ 0.16

As at March 31, 2014, common share stock options held by directors, officers, employees and consultants are as follows:

Number of options outstanding	CDN\$ Exercise Price	Expiry Date	Number of options exercisable	Weighted average life (yrs)
245,000	0.15	March 2, 2015	245,000	0.92
120,000	0.25	November 10, 2014	120,000	0.61
245,000	0.90	February 2, 2016	245,000	1.84
175,000	0.15	July 22, 2018	175,000	4.21
13,525,000*	0.15	January 16, 2019	13,525,000	4.75
14,310,000			14,310,000	2.15

* Issued under plan of arrangement.



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There were no options granted this period (2012 – 14,310,000). Prior period’s vesting terms ranged from immediate to three years and granted at a weighted average price of CDN\$0.15. Furthermore, 4,812,250 options were cancelled for the year ended December 31, 2013 at a weighted average price of CDN\$0.38. No options were cancelled in the current period. The vested options had an estimated fair value using the following assumptions options at the measurement date:

For the period ended	2014 -2013
Risk-free interest rate	1.16- 1.18%
Expected life	5 years
Price volatility	99- 101%
Share price (CDN\$)	0.13 to 0.15
Dividend yield	Nil

13. Warrants

The movements in the number of outstanding broker warrants and share purchase warrants are as follows for the year ended December 31, 2013 and period ended March 31, 2014:

	March 31, 2014		December 31, 2012	
	Warrants	Weighted average exercise Price (CDN \$)	Warrants	Weighted average exercise price (CDN \$)
Balance, beginning of year	9,550,200	\$ 0.72	515,140	515,140
Exercised	-	-	-	-
Expired	-	-	(315,140)	(315,140)
Granted by Aquila	-	-	3,128,750	3,128,750
Acquired through REBgold	-	-	6,221,450	6,221,450
Balance, end of year	9,550,200	\$ 0.72	9,550,200	9,550,200

The exercise price, expiry date, and warrants issued and outstanding as at March 31, 2014 are as follows:

Number of warrant outstanding	CDN\$ Exercise Price	Expiry Date	Weighted average life (yrs)
200,000	0.51	October 1, 2014	0.50
2,945,000	0.20	May 17 to June 21, 2018	4.22
183,750	0.12	May 17 to June 21, 2018	4.23
410,000	1.20	April 15, 2015*	1.03
1,701,500	1.00	June 17, 2015*	1.21
2,000,000	1.00	November 10, 2016*	2.61
1,950,000	1.00	November 10, 2016*	2.61
159,950	0.15	January 16, 2019*	1.89
9,550,200			2.00

* Warrants from REBgold issuable under plan of arrangement.



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No new warrants were issued during the period ended March 31, 2014. During the year ended December 31, 2013, 3,128,750 warrants were granted with a grant date fair value of \$264,604 and 315,140 warrants expired with a value of \$121,433, which amount reduced the warrant reserve account and reduced the deficit. As a result of the Plan of Arrangement with REBgold, the REBgold warrants that are exercised will be converted to Aquila Shares. The fair value of the warrants issued during the year ended December 31, 2013 was estimated using the Black-Sholes option pricing model with the following assumptions.

For the period ended March 31, 2014	2014 - 2013
Risk-free interest rate	1.01- 1.66%
Expected life	5 years
Price volatility	70%-123%
Share price (CDN \$)	0.10 -0.13
Dividend yield	Nil

Pursuant to a Plan of Arrangement between REBgold and BacTech Environmental Company (“BEC”) that was completed on December 6, 2010. REBgold has certain obligations pursuant to the warrants in existence at the time of the December 6, 2010 Plan of Arrangement, which upon being exercised, shall be satisfied by the issuance of one common share from the Company and two common shares of BEC. Upon the exercise of any of these warrants, the Company shall pay to BEC 17% of the exercise proceeds as consideration for the issuance of the BEC common shares. The Company shall retain the balance of the aggregate exercise price as consideration for the issuance of its common shares from the exercise of the warrant

14. Derivative liabilities

Warrants

Equity offerings were completed in previous periods whereby warrants were issued with exercise prices denominated in Canadian dollars. As the warrants have an exercise price denominated in a currency which is different from the functional currency of the Company (US dollar), the warrants are treated as a financial liability. The Company’s share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value recognized in net earnings. The warrant derivative liability is classified as level 2 in the fair value hierarchy. The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of the Canadian dollar denominated warrants.

For the periods ended	2014 - 2013
Risk-free interest rate	1.01- 1.62%
Expected life	1-3 years
Price volatility	70-106%
Share price (CDN \$)	0.09 - 0.13
Dividend yield	Nil

Black-Scholes pricing models require the input of highly subjective assumptions. Volatility was estimate based on average daily volatility based on historical share price observations over the expected term of the option grant.



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15. Related Party Transactions

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee. During the three months ended March 31, 2014, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

	Three months ended March 31,	
	2014	2013
	\$	\$
Short-term compensation and benefits	196,140	51,424
Share-based payments (fair value of stock option benefits and share based payments)	-	36,355
	196,140	87,779

As at March 31, 2014 \$171,250 (2013 - \$8,850) is included in accounts payable in connection with amounts due to key management personnel.

During the period ended March 31, 2014 a total of \$27,000 (2013 - \$8,562) was billed to the Company by a geological consulting company of which the President of the Company's Aquila USA Inc. subsidiary and another director are major shareholders. This amount was for professional services provided and reimbursement of out-of-pocket costs.

During the period ended March 31, 2014, the Company was charged legal fees totaling Nil (2013 - \$16,867) by a law firm whose partner is an officer of the Company.

During the period ended March 31, 2014 rental expenditures in the amount of \$3,600 (2012-\$3,600) were paid to a company of which the President and certain related individuals are part owners.

Transaction costs that were incurred as a result of the Acquisition Transitions as per notes 7 and 9, included share based payments (options) and the issue of common shares of the Company as compensation to the board and management. Total value of the share based payments and issue of the common shares of the Company, which are included in transaction costs, were valued at \$935,075.



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16. Administrative expenses

For the three month period ended March 31	2014	2013
	\$	\$
Amortization	891	3,700
Management and consulting fees	157,071	63,853
Directors' fees	19,934	-
Filing and regulatory fees	14,439	9,138
Foreign exchange (gain) loss	(164,727)	2,779
Office, general and administrative	63,870	17,588
Professional fees	32,087	43,501
Salaries and benefits	58,967	43,914
Share-based compensation	-	36,355
Travel and promotion	59,659	16,558
Total administrative expense	242,191	237,386

Prior year items were presented separately on the statement of Loss

17. Finance Charges

For the three month period ended March 31	2014	2013
	\$	\$
Interest and bank charges	1,585	1,925
Interest income	(5,390)	-
Debenture interest	22,616	-
Debenture accretion	20,145	-
Total administrative expense	38,956	1,925

Prior year items were presented separately on the statement of Loss

18. Capital Management

The Company considers its capital to include all of the components of its shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to seek out and acquire new projects of merit.

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



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

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

19. Financial Instruments

The carrying amounts for cash, accounts receivable, cash receivable from Arrangement and accounts payable and accrued liabilities approximate their estimated fair value due to the short term nature of these financial instruments.

Cash and accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Warrants, contingent consideration and the debenture conversion feature are carried at fair value.

The Company's risk exposures and the impact on its financial investments as summarized below, have not changed significantly for the year ended March 31, 2014.

Credit Risk

The Company's credit risk is primarily attributable to accounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in accounts receivable is immaterial.

Liquidity Risk

The Company's main source of liquidity is derived from its common stock issuances. As at March 31, 2014, the Company had current assets of \$3,413,523 (December 31, 2013 - \$4,704,905) to settle current liabilities of \$1,431,507 (2013 - \$1,958,476). All of the Company's financial liabilities have contractual maturities that are subject to normal trade terms and are due within one year, other than the debentures which are payable in 2015. The payment of the contingent consideration is subject to certain conditions being present as described in Note 7.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest bearing debt. The Company's



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(unaudited, expressed in United States Dollars, unless otherwise stated)

current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

Foreign Currency Risk

The Company is exposed to currency risk arising from fluctuations in foreign exchange rates. The Company raises funds from equity financing primarily in Canadian dollars and pays for a significant amount of expenditures relating to its mineral property interests in U.S. dollars.

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration stage, the Company does not hedge against commodity price risk.

Sensitivity Analysis

The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable, and accounts payable and accrued liabilities that are denominated predominantly in Canadian Dollars. Sensitivity to a plus or minus 10% change in the foreign exchange rate would not significantly affect net loss.

Fair value hierarchy

The following is an analysis of the Company's assets and liabilities measured at fair value on recurring and non-recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash	3,075,828		
Warrants liability		364,129	
Conversion feature of Debentures		188,247	
Contingent consideration			6,734,951