JUNE 30, 2013
INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars, unless otherwise stated)

INDEX

	Page
Interim Unaudited Condensed Consolidated Statements of Financial Position	1
Interim Unaudited Condensed Consolidated Statements of Loss and Comprehensive Loss	2
Interim Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity	3
Interim Unaudited Condensed Consolidated Statements of Cash Flows	4
Notes to the Interim Unaudited Condensed Consolidated Financial Statements	5-19

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 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.

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States Dollars)

	Note	June 30 2013	December 31 2012
ASSETS			
Current			
Cash		$274,369	$223,484
Accounts receivable		83,883	47,409
Prepaid expenses		28,914	30,550
		387,166	301,443
Investment in Back Forty Joint Venture LLC	5	27,572,849	27,572,849
Mineral property costs	6	1,906,239	2,202,779
Security deposits	6(a)	166,424	166,424
Capital assets	7	653,462	658,536
		$30,686,140	$30,902,031
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$170,492	$44,882
SHAREHOLDERS' EQUITY			
Share capital	8(a)	42,760,423	42,430,879
Contributed surplus		5,383,682	5,350,797
Warrants	9	342,950	199,778
Deficit		(17,971,407)	(17,124,305)
		30,515,648	30,857,149
		$30,686,140	$30,902,031

Nature of operations (Note 1)
Going concern (Note 2)
Commitments (Note 6)
Subsequent event (Note 11)

Approved on behalf of the Board

'Edward J. Munden' Director

'Robin Dunbar' Director

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in United States Dollars)

		For the three months ended June 30,		For the six months ended June 30,	
	Note	2013	2012	2013	2012
Expenses					
Depreciation		$1,374	$3,445	$5,074	$7,945
Consulting fees		80,324	11,089	133,865	23,102
Director's fees		-	13,789	-	24,713
Filing and regulatory fees		15,919	-	25,057	50,828
Foreign exchange (gain) loss		11,573	25,416	14,353	(5,840)
Interest and bank charges		1,878	4,050	3,803	5,859
Mineral property write-off		405,231	11,340	443,202	33,043
Management fees		3,075	15,525	13,386	32,343
Office, general and administration		22,612	48,241	33,032	62,492
Professional fees		57,427	93,466	100,928	148,508
Rent		10,661	6,777	17,830	13,331
Salaries and benefits		57,958	74,456	101,872	186,104
Share-based compensation	8(b)	13,534	-	49,889	-
Travel and promotion		27,197	21,623	43,753	69,985
		708,763	329,217	986,044	652,413
Interest and other income		506	25,096	506	25,596
Net loss and comprehensive loss for the period		$708,257	$304,121	$985,538	$626,817
Loss per common share					
Basic and diluted loss per share		$0.01	$0.00	$0.01	$0.01
Weighted average number of common shares outstanding		93,597,797	90,945,168	92,092,020	90,847,586

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in United States Dollars)

	Share Capital		Contributed		Accumulated	
	Shares	Amount	Surplus	Warrants	Deficit	Total
Balance, December 31, 2011	90,739,168	$42,333,037	$5,351,640	$199,778	$ (14,646,644)	$33,237,811
Proceeds on exercise of options	6,000	893	-	-	-	893
Fair value of options exercised	-	843	(843)	-	-	-
Shares issued under a property agreement	200,000	96,106	-	-	-	96,106
Net loss	-	-	-	-	(626,817)	(626,817)
Balance, June 30, 2012	90,945,168	$42,430,879	$5,350,797	$199,778	$ (15,273,461)	$32,707,993
Balance, December 31, 2012	90,945,168	$42,430,879	$5,350,797	$199,778	$ (17,124,305)	$30,857,149
Private placement (Note 8(a))	5,890,000	579,752	-	-	-	579,752
Share issue costs (Note 8(a))	-	(20,055)	-	-	-	(20,055)
Fair value assigned to warrants (Note 8(a))	-	(264,604)	-	264,604	-	-
Shares issued as compensation (Note 8(a))	222,046	34,451	-		-	34,451
Share-based compensation (Note 8(b))	-	-	49,889	-	-	49,889
Options expired	-	-	(17,004)	-	17,004	-
Warrants expired	-	-	-	(121,432)	121,432	-
Net loss	-	-	-	-	(985,538)	(985,538)
Balance, June 30, 2013	97,057,214	$42,760,423	$5,383,682	$342,950	$ (17,971,407)	$30,515,648

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars, unless otherwise stated)

For the six months ended June 30,	2013	2012
Cash flows from operating activities		
Net loss for the period	$(985,538)	$(626,817)
Adjustment for:		
Depreciation	5,074	7,945
Gain on sale of capital assets	-	(25,095)
Mineral property write off	443,202	
Share-based compensation	49,889	-
	(487,373)	(643,967)
Changes in non-cash working capital		
Accounts receivable	(36,472)	41,630
Prepaid expenses	1,635	33
Security deposits		35,423
Accounts payable and accrued liabilities	125,610	153,236
Advance for work to be performed	-	(50,357)
Cash flows used in operating activities	(396,600)	(464,002)
Cash flows from investing activities		
Increase in mineral properties	(146,662)	(891,486)
Proceeds on sale of capital assets	-	220,000
Cash flows used in investing activities	(146,662)	(671,486)
Cash flows from financing activities		
Issuance of common shares	594,147	893
Cash flows provided from financing activities	594,147	893
Net decrease in cash	50,885	(1,134,595)
Cash beginning of period	223,484	1,926,624
Cash end of period	274,369	$792,029

1. Nature of operations:

Aquila Resources Inc. (the "Company") was incorporated under the Business Corporations Act ("Canada") and is involved in the mineral exploration business. The Company's head office address is 65 Queen Street West, Suite 530, Toronto Canada, M5H 2M5.

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.

The financial statements were approved and authorized for issuance by the Board of Directors on August 14, 2013.

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 5). 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 has the controlling interest in the BFJV, suspended its exploration and evaluation activities at the Back Forty project. The future development of this project depends on securing financing and obtaining the related permits that will bring the project into a production stage.

These interim unaudited condensed consolidated 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 interim unaudited condensed consolidated 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.

These conditions indicate the existence of material uncertainties that may cast doubt about the Company's ability to continue as a going concern. Changes in future conditions could require material write downs of the carrying values.

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

	June 30, 2013	December 31, 2012
	$	$
Deficit	**17,971,407**	17,124,305
Working capital	**216,674**	256,561

3. Basis of presentation:

These interim unaudited condensed consolidated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS") and in particular in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). IFRS represents standards and interpretations approved by the International Accounting Standards Board ("IASB"), and are comprised of IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") or the former Standing Interpretations Committee ("SICs").

4. Significant accounting policies:

These interim unaudited condensed consolidated financial statements are expressed in US Dollars, except those amounts denoted Cdn$ which are in Canadian Dollars.

The significant accounting policies used in the preparation of these interim unaudited condensed consolidated financial statements are as follows:

Translation of foreign currencies:

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.

Basis of measurement:

These interim unaudited condensed consolidated 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 interim unaudited condensed consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of consolidation:

These interim unaudited condensed consolidated 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 benefits from the entity's activities. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposal or loss of control. The Company's principal subsidiary, Aquila Resources USA Inc., is located in Michigan USA. All inter-company balances and transactions have been eliminated.

Impairment:

Financial assets

At the end of each reporting period, the Company assesses its financial assets to determine whether there is any objective evidence that they are impaired. The amount of the provision is the difference between the

asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive loss.

Non-financial assets
At the end of each reporting period, non-financial 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 asset is written down accordingly. Any impairment is recognized in the statement of loss.

Investments in Associates:
Investments over which the Company exercises significant influence and which are neither subsidiaries nor interests in joint ventures are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale.

The equity method involves the recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for the Company's proportionate share of the profit or loss and any other changes in the associate's net assets such as dividends.

Mineral property costs:
Mineral property costs relating to properties, that are incurred after the legal right to explore has been obtained, are capitalized until the properties are brought into production, at which time they are amortized on a unit of production basis. Other general exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned, impaired or sold and their related capitalized exploration costs are expensed to operations in the year of abandonment or sale. The amounts shown as mineral property costs represent unamortized costs to date and do not necessarily reflect present or future values.

Costs include the cash consideration and the fair market value of shares issued for the acquisition and exploration of properties. The carrying value is reduced by option proceeds received until such time as the mineral property costs are reduced to nominal amounts. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

When a project is considered to no longer have commercially viable prospects for the Company, deferred mineral property costs in respect of that property are assessed as impaired and written off to the statement of loss. The Company also assesses mineral property costs for impairment when other facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Capital assets:
Capital assets consist of land, buildings, furniture and fixtures which are initially recorded at cost. Depreciation is recorded using the following rates and methods:

Buildings	4%	Declining balance
Furniture and fixtures	20%	Declining balance

Depreciation on additions commences when assets are available for use.

Decommissioning, restoration and similar liabilities:
Provisions, which include decommissioning liabilities, are liabilities that are uncertain in timing or amount.
The Company records a provision when:

(i) the Company has a present obligation, legal or constructive, as a result of a past event;
(ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(iii) a reliable estimate can be made of the amount of the obligation.

Constructive obligations are obligations that derive from the Company's actions where:
(i) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
(ii) as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in finance costs in the statements of loss and comprehensive loss.

The Company has no material decommissioning, restoration and similar liabilities at June 30, 2013.

Income taxes:
Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of loss except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

Current income tax
Current income tax expense is based on the results for the period as adjusted for items that are not taxable and not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management at the end of each reporting period evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax
Deferred income taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the financial statements and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Share-based compensation:
The Company applies the fair value method of accounting for share-based payments granted to employees and other individuals providing similar services. The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk free interest rate over the expected life of the option. Each tranche of an option that vests over time is considered a separate award and the fair value of each tranche is expensed over its vesting period with the corresponding credit to contributed surplus. Cash consideration received on exercise of options is credited to share capital along with the original grant date fair value of the options exercised. The value of options forfeited before vesting is removed from contributed surplus and credited to operations, while the value of options that expire after vesting is credited directly to retained earnings.

Share-based payments granted to non-employees are measured at the fair value of goods received unless that cannot be reasonably estimated in which case the fair value of the share-based payments are used. The measurement date is generally the date the goods or services are received.

Warrants:
All warrants issued under a unit financing arrangement are valued on the date of grant using the Black-Scholes option pricing model, net of related issue costs and are recorded in contributed surplus. Expired warrants are removed from contributed surplus and credited directly to retained earnings.

Basic and diluted loss per share:
The Company presents basic and diluted loss per share data for its common shares. Dilution is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise convertible warrants and share options granted to directors, officers, employees, consultants and other service providers of the Company. For the period ended June 30, 2013, potentially dilutive common shares issuable on exercise of options or warrants outstanding were not included in the computation of loss per share because their effect was anti-dilutive.

Financial instruments:
Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "fair value through profit or loss ("FVTPL")", "available for sale" financial assets, "held to maturity", "loans and receivables", or "other" financial liabilities. FVTPL financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available for sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the statement of financial position or until impairment is assessed as other than temporary. Held to maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments recorded at fair value by valuation technique:
Level 1: The fair value measurements are classified as level 1 if the fair value is determined using quoted, unadjusted market prices for identical assets or liabilities.
Level 2: The fair value measurements are classified as level 2 when inputs other than quoted prices in level 1 which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: The fair value measurements are classified as level 3 when inputs require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs.

Recent accounting pronouncements:
Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after April 1, 2013 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.
IFRS 9 – Financial instruments ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment

methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the financial impact of the new standard.

Critical accounting judgments and key sources of estimation uncertainty:
The preparation of the interim unaudited condensed consolidated 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:

Capitalization of mineral property costs
Management has determined mineral property costs incurred during the period have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

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.

Impairment 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.

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.

5. Investment in Back Forty Joint Venture LLC:

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. 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. The Company has significant influence over BFJV and accounts for the investment using the equity method. Additional details of the respective agreements may be found in Note 6 (a).

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 $27,572,849, and that amount has been reflected as the Company's Investment in BFJV.

6. Mineral property costs:

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

Six months ended June 30, 2013	Balance beginning of period	Acquisition	Exploration	Reimbursements	Write-off	Balance end of period
Exploration Alliance	$ -	$12,162	$650	$ -	$ (12,812)	$ -
Bend**	-	-	33,338	-	-	33,338
Reef	1,847,478	24,649	774	-	-	1,872,901
Other	355,301	6,000	69,089	-	(430,390)	-
	$2,202,779	$42,811	$103,851	$ -	$ (443,202)	$1,906,239

**Formerly an Exploration Alliance property

Year ended December 31, 2012	Balance beginning of year	Acquisition	Exploration	Reimbursements	Transfer to investment/ write-off (see Notes 5, 6 (a) (ii) and 6(c))	Balance end of year
Back Forty Project	$27,575,599	$1,472,026	$44,154	$(1,518,930)	$(27,572,849)	$ -
Exploration Alliance	-	126,306	1,954,979	(2,081,285)	-	-
Michigan Gold	1,505,076	176,530	4,533	-	(1,686,139)	-
Reef	1,086,238	47,865	713,375	-	-	1,847,478
Other	180,647	95,000	79,654	-	-	355,301
	$30,347,560	$1,917,727	$2,796,695	$(3,600,215)	$(29,258,988)	$2,202,779

(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/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 is owned 49% by the Company, and 51% by HudBay via its wholly owned subsidiary HudBay Michigan Inc. The affairs of BFJV are 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. Under the Operating Agreement the following came into effect:

   a. HudBay has the option to increase its interest in BFJV to 65% by funding and completing a feasibility study, funding and submitting a permitting application, and making outstanding specified option payments.

   b. In the event that permitting applications are submitted, HudBay elects to put the Project into production and issues a Development Notice, and permitting is obtained, the Company will have 90 days to arrange financing for its share of BFJV's costs. If the Company is unable to obtain financing, or elects not to do so, HudBay, by assuming the obligation to finance 100% of the development costs, will increase its ownership in BFJV by a further 10% to a minimum of 75%. Pursuant to the Operating Agreement, the Company's 25% share of the development costs would then be deducted from the Company's proportionate share of Net Proceeds from BFJV.

   c. While HudBay retains the largest ownership interest in the Project, HudBay will be the manager and project operator. HudBay will also have exclusive marketing rights to sell production to HudBay or third parties on commercial terms.

   d. If a feasibility study is not completed, and all applications for permitting are not submitted on or before the fourth anniversary of the Agreement (August 6, 2013), the Company has the right to acquire HudBay's 51% interest in BFJV by reimbursing 50% of HudBay's total expenditures in respect of the Project incurred from the date of execution of the Agreement. If the Project is not brought into commercial production within four years from the grant of mining permits, the Company may acquire HudBay's 65% joint venture interest by reimbursing 50% of HudBay's total Project expenditures incurred after the date of execution of the Agreement. Notwithstanding the Company exercising the foregoing right, HudBay retains the marketing and product rights as

provided for in the Operating Agreement. If the Company exercises its right to acquire HudBay's interest in the Project, HudBay's participating interest will be converted to a 1% NSR.

Pursuant to the Operating Agreement, HudBay is the operator of BFJV with authority and discretion as to the exploration and potential development of the Project and will have exclusive rights to purchase and market the minerals produced from the Project. Although the legal name of BFJV includes the words "joint venture", management has determined that a joint venture under applicable accounting standards does not exist. IAS 31 "Interest in Joint Ventures" requires the venturers to have joint control over the strategic financial and operating decisions of the venture for it to be considered a joint venture for accounting purposes. Under the Operating Agreement the venturers do not have joint control.

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.

At June 30, 2013 the Company maintained cash deposits in the amount of $166,424 (December 31, 2012 - $166,424), pursuant to escrow agreements. The amounts are being held as security for the fulfillment of obligations in accordance with certain agreements pursuant to the Project. These security deposits are interest bearing at an average of 2% (December 31, 2012 – 2%).

The Company is required to fund certain holding costs under the Operating Agreement, which are the minimum costs necessary to maintain the property in good standing. These costs are estimated at approximately $221,000 for 2013. Estimated lease, option and property acquisition costs related to the Back Forty Project for 2013 to 2017, for which HudBay is materially liable throughout the duration of the agreement, are as follows:

2013	$1,937,681
2014	$1,557,195
2015	$1,852,852
2016	$148,509
2017	$179,167

(b) 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 six months ended June 30, 2013 the Company decided not to maintain the Sturgeon Falls, and Five Mile Lake properties and as a result wrote off $12,812 of deferred costs that had been incurred on those properties. The remaining value on the former Exploration Alliance properties at June 30, 2013 pertains entirely to the Bend property and amounts to $33,338.

(c) Michigan Gold

On October 21, 2010, the Company entered into an option agreement with Minerals Processing Corporation ("MPC"), a related party (MPC and the Company have common directors and officers), to earn a 100% interest in certain surface and mineral rights located in Marquette County, Michigan.

During 2012, the Company issued 200,000 shares as a payment of the 2010 and 2011 obligations.

Subsequent to December 31, 2012 the Company decided not to exercise its option on the property and as a result $1,686,139 was written off in 2012.

(d) Reef

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 2013 to 2017, which are at the Company's option, are as follows:

2013	$46,031
2014	$46,031
2015	$396,881
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 six months ended June 30, 2013 the Company decided not to maintain the Vindicator and Moose Pasture properties and as a result wrote off $430,390 of deferred costs that had been incurred on those properties.

7. Capital assets:

	Land	Buildings	Furniture and Fixtures	Total
Cost	**$**	**$**	**$**	**$**
At December 31, 2012 and March 31, 2013	380,880	348,238	31,361	760,479
Accumulated depreciation				
At December 31, 2012	-	81,417	20,526	101,943
Charge for the period	-	3,358	1,716	5,074
At June 30, 2013	-	84,775	22,242	107,017
Net book value				
At December 31, 2012	380,880	266,821	10,835	658,536
At June 30, 2013	380,880	263,463	9,119	653,462

8. Share capital:

(a) Common Shares

Authorized

The authorized capital stock of the Company consists of an unlimited number of common shares.

During the six month period ended June 30, 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 Cdn $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 Cdn $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.

During the six months ended June 30, 2013 222,046 common shares were issued with a value of $34,451. The shares were issued under a compensation agreement and the value was equal to the value of the services received.

(b) 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.

As at June 30, 2013, 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
1,280,000	0.15	March 2, 2014	1,280,000
788,750	0.25	November 10, 2014	788,750
1,625,000	0.90	February 2, 2016	1,625,000
1,000,000	0.15	March 18 2018	333,333
4,693,750			4,027,083

There were 333,333 options that vested during the six months ended June 30, 2013 with an estimated fair value of $49,889 (2011 - $Nil). The options vested were valued using the Black-Scholes valuation model. Options issued to non-employees have been valued using the fair value of the options granted, in the absence of a reliable estimate of the fair value of the goods or services rendered. The following assumptions were used to value the options at the measurement date:

For the six months ended June 30	**2013**	2012
Risk-free interest rate	**1.18%**	-
Expected life	**5 years**	-
Price volatility	**0.99**	-
Share price (Cdn $)	**0.15**	-
Dividend yield	**Nil**	-

A summary of the status of the Company's stock option, and changes during the six months ended June 30, are presented below:

	2013		2012	
	Options	Weighted average exercise price (Cdn $)	Options	Weighted average exercise price (Cdn $)
Balance outstanding January 1	**3,722,250**	**$ 0.50**	4,928,250	$ 0.90
Exercised	**-**		(6,000)	
Expired	**(28,500)**		(1,200,000)	
Granted	**1,000,000**		-	
Balance outstanding June 30	**4,693,750**	**$ 0.43**	3,722,250	$ 0.50

9. Warrants:

As of June 30, 2013 there were 3,328,750 (December 31, 2012 – 515,140) warrants issued and outstanding having a weighted average exercise price of Cdn $0.21, and expiry dates between October 2014 and June 2018.

During the six months ended June 30, 2013 3,128,750 options were granted with a grant date fair value of $264,604. 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.

A summary of warrant activity is as follows:

	Number of Warrants	Expiry date	Weighted average exercise price (Cdn $)
Balance outstanding January 1 2012 and 2013	515,140	May 2013 and Oct 2014	0.51
Expired	(315,140)	May 2013	0.51
Granted	2,945,000	May and June 2018	0.20
Granted	183,750	May and June 2018	0.12
Balance outstanding June 30, 2013	3,328,750		0.21

10. 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 six months ended June 30, 2013, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

	Six months Ended June 30,	
	2013	2012
	$	$
Short-term compensation and benefits	**181,922**	247,257
Share-based payments (fair value of stock option benefits)	**49,889**	-
	231,811	247,257

As at June 30, 2013 $3,688 (2012 - $Nil) is included in accounts payable in connection with amounts due to key management personnel.

During the six months ended June 30, 2013 a total of $15,316 (2012 - $127,706) was billed to the Company by a geological consulting company of which the President and another director are major shareholders. This amount was for professional services provided and reimbursement of out-of-pocket costs.

During the six months ended June 30, 2013, the Company was charged legal fees totaling Cdn $45,106 (2012 - $45,489) by a law firm whose partner is an officer of the Company.

During the six months ended June 30, 2013 rental expenditures in the amount of CDN $7,200 (2012 - $7,200) were charged by a Company with common directors.

During the six months ended June 30, 2013 rental expenditures in the amount of $7,200 (2012-$7,200) were paid to a company of which the President and certain related individuals are part owners.

During the six months ended June 30, 2013 exploration and evaluation expenditures in the amount of $Nil (2012 - $1,878,539) were reimbursed by HudBay, a company that has an approximate 15.8% interest in the Company. The re-imbursement was pursuant to the terms of the HudBay Option and Joint Venture and the Exploration Alliance agreements described in Notes 6(a) and (b).

11. Subsequent event:

On July 22, 2013 the Company issued 875,000 options exercisable for five years from date of issue at $0.15 per share. The options vested upon issuance.

12. 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.

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.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2013.

13. Financial instruments:

The carrying amounts for cash, 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 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.

The Company's risk exposures and the impact on its financial investments as summarized below, have not changed significantly for the six months ended June 30, 2013.

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 June 30, 2013, the Company had current assets of $387,166 (December 31, 2012 - $301,443) to settle current liabilities of $170,492 (2012 - $44,882). All of the Company's financial liabilities have contractual maturities that are subject to normal trade terms.

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 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.