



# **Aura Silver Resources Inc.**

(An Exploration Stage Company)

## **Unaudited Condensed Consolidated Interim Financial Statements**

For the three and nine month periods ended September 30, 2013

(Expressed in United States Dollars)

**NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED  
CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying condensed consolidated interim financial statements of Aura Silver Resources Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's Audit Committee and Board of Directors has reviewed and approved these condensed consolidated interim financial statements.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements.

# Aura Silver Resources Inc.

(An Exploration Stage Company)

## Unaudited Condensed Consolidated Statements of Financial Position

(expressed in U.S. dollars)

	September 30, 2013 \$	December 31, 2012 \$
<b>Assets</b>		
Current assets:		
Cash	284,632	70,365
Short-term investments	534,990	-
Amounts receivable (note 4)	8,628	10,172
Prepaid expenses	11,624	11,019
	<u>839,874</u>	<u>91,556</u>
<b>Equipment</b> (note 5)	618	733
<b>Mineral exploration properties</b> (note 6)	153,690	-
<b>Deferred exploration expenditures</b> (note 6)	71,375	-
	<u>225,683</u>	<u>733</u>
	<u>1,065,557</u>	<u>92,289</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	99,189	225,768
Related party demand notes payable (note 10)	-	60,187
	<u>99,189</u>	<u>285,955</u>
<b>Shareholders' equity (deficiency)</b>		
<b>Capital stock</b> (note 9)	12,547,372	12,547,372
<b>Warrants</b> (note 9)	44,480	1,804,864
<b>Contributed surplus</b> (note 9)	4,377,049	2,612,265
<b>Accumulated deficit</b>	(15,955,846)	(17,111,410)
<b>Accumulated other comprehensive loss</b>	(46,687)	(46,757)
	<u>966,368</u>	<u>(193,666)</u>
	<u>1,065,557</u>	<u>92,289</u>

Going concern (note 1)

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

Approved by the Board of Directors:

(signed) "W. William Boberg"  
Director

(signed) "Robert Boaz"  
Director

**Aura Silver Resources Inc.**

(An Exploration Stage Company)

**Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)**

(expressed in U.S. dollars)

	Three months ended September 30, 2013 \$	Three months ended September 30, 2012 \$	Nine months ended September 30, 2013 \$	Nine months ended September 30, 2012 \$
<b>Expenses</b>				
Promotion	1,386	11,266	14,759	42,995
Regulatory authority and transfer agent fees	4,161	12,384	12,929	24,558
Professional fees	19,505	15,421	48,988	60,560
General and administrative	58,888	78,528	180,447	245,122
Amortization of equipment	36	46	115	146
Total expenses	(83,976)	(117,645)	(257,238)	(373,381)
Other income (note 6)	1,412,000	-	1,412,000	-
Interest income	802	-	802	-
Gain on warrants (note 8)	-	90	-	10,581
<b>Income (loss) before income taxes</b>	1,328,826	(117,555)	1,155,564	(362,800)
Recovery of deferred income taxes	-	27,098	-	77,668
<b>Net income (loss) for the period</b>	1,328,826	(90,457)	1,155,564	(285,132)
<b>Other comprehensive income</b>				
Currency translation differences	(7,513)	460,463	70	198,478
<b>Total comprehensive income (loss) for the period</b>	1,321,313	370,006	1,155,634	(86,654)
Net income (loss) per common share:				
Basic and diluted	0.01	(0.00)	0.01	(0.00)
Weighted average number of common shares outstanding:				
Basic and diluted	101,680,844	100,789,540	101,680,844	98,713,811

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# Aura Silver Resources Inc.

(An Exploration Stage Company)

## Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

(expressed in U.S. dollars)

	Capital stock		Warrants		Contributed surplus	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficiency)
	#	\$	#	\$	\$	\$	\$	\$
<b>Balance, January 1, 2013</b>	101,680,844	12,547,372	31,218,625	1,804,864	2,612,265	(17,111,410)	(46,757)	(193,666)
Expiry of warrants	-	-	(27,218,625)	(1,760,384)	1,760,384	-	-	-
Stock option compensation charges	-	-	-	-	4,400	-	-	4,400
Net income (loss) for the period	-	-	-	-	-	1,155,564	-	1,155,564
Currency translation differences	-	-	-	-	-	-	70	70
<b>Balance, September 30, 2013</b>	101,680,844	12,547,372	4,000,000	44,480	4,377,049	(15,955,846)	(46,687)	966,368
<b>Balance, January 1, 2012</b>	97,680,844	12,592,217	44,431,513	2,416,708	1,742,239	(5,781,572)	117,716	11,087,308
Private placement of units, net of issue costs	4,000,000	144,043	4,000,000	44,480	-	-	-	188,523
Agent compensation options issued	-	-	-	-	1,400	-	-	1,400
Extension of warrant expiries (note 9)	-	-	-	135,270	(135,270)	-	-	-
Expiry of agent warrants	-	-	(60,000)	(3,441)	3,441	-	-	-
Stock option compensation charges	-	-	-	-	159,068	-	-	159,068
Net loss for the period	-	-	-	-	-	(285,132)	-	(285,132)
Currency translation differences	-	-	-	-	-	-	198,478	198,478
<b>Balance, September 30, 2012</b>	101,680,844	12,736,260	48,371,513	2,593,017	1,770,878	(6,066,704)	316,194	11,349,645

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

# Aura Silver Resources Inc.

(An Exploration Stage Company)

## Unaudited Condensed Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

	Three months ended September 30, 2013 \$	Three months ended September 30, 2012 \$	Nine months ended September 30, 2013 \$	Nine months ended September 30, 2012 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	1,328,826	(90,457)	1,155,564	(285,132)
Items not affecting cash:				
Stock based compensation (note 9)	377	25,895	2,025	76,125
Amortization of equipment	36	46	115	146
Unrealized gain on warrant liability	-	(90)	-	(10,581)
Recovery of deferred income taxes	-	(27,098)	-	(77,668)
Change in non-cash working capital items:				
Amounts receivable	(1,178)	(2,539)	1,544	7,080
Prepaid expenses	(2,647)	(6,494)	(605)	2,323
Accounts payable and accrued liabilities	(197,850)	(25,504)	(129,909)	(12,891)
	<u>1,127,564</u>	<u>(126,241)</u>	<u>1,028,734</u>	<u>(300,598)</u>
<b>Investing activities</b>				
Purchase of short-term investments	(534,990)	-	(534,990)	-
Mineral exploration property costs (note 6)	(77,288)	(46,345)	(153,698)	(46,366)
Deferred exploration expenditures (note 6)	(30,883)	(62,857)	(65,506)	(145,429)
	<u>(643,161)</u>	<u>(109,202)</u>	<u>(754,194)</u>	<u>(191,795)</u>
<b>Financing activities</b>				
Issuance of common shares and warrants for cash (note 9)	-	198,607	-	198,607
Advance of related party demand note (note 10)	-	-	149,793	-
Repayment of related party demand notes (note 10)	(203,908)	-	(203,908)	-
Share issue costs	-	(6,892)	-	(8,684)
	<u>(203,908)</u>	<u>191,715</u>	<u>(54,115)</u>	<u>189,923</u>
Effect of exchange rate changes on cash	<u>(3,033)</u>	<u>6,331</u>	<u>(6,158)</u>	<u>5,397</u>
<b>Net change in cash</b>	<u>277,462</u>	<u>(37,397)</u>	<u>214,267</u>	<u>(297,073)</u>
<b>Cash - Beginning of period</b>	<u>7,170</u>	<u>121,643</u>	<u>70,365</u>	<u>381,319</u>
<b>Cash - End of period</b>	<u>284,632</u>	<u>84,246</u>	<u>284,632</u>	<u>84,246</u>

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

(expressed in U.S. dollars)

## **1. Nature of operations and going concern**

### **General information**

Aura Silver Resources Inc. (referred to herein collectively with its subsidiaries as the "Company") is an exploration stage junior mining company engaged in the identification, acquisition, evaluation and exploration of mineral properties in North America. The Company has not determined whether the properties contain mineral resources that are economically recoverable. The recoverability of amounts recorded for mineral exploration properties and deferred exploration expenditures is dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain the necessary financing to complete the development of these resources and upon attaining future profitable production from the properties or sufficient proceeds from disposition of the properties.

Aura Silver Resources Inc. is publicly listed on the TSX Venture Exchange. The Company's registered office is located at 1128 Clapp Lane, Manotick (Ottawa), Ontario, Canada, where it is domiciled.

### **Going concern**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which assumes that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Several conditions cast significant doubt on the validity of this assumption and hence the appropriateness ultimately of the use of accounting principles relating to a going concern. From inception to date, the Company has incurred losses from operations and experienced negative cash flows from operating activities. As at September 30, 2013, the Company had cash and short-term investments totalling \$819,622. Existing funds on hand at September 30, 2013 will not be sufficient to support the Company's needs for cash to conduct exploration and to continue operations during the coming year. The Company will require additional funding to be able to advance and retain mineral exploration property interests and to meet ongoing requirements for general operations. The ability of the Company to continue as a going concern is dependent on raising additional financing, attracting joint venture partners, developing its properties and / or generating profits from operations or disposition of properties in the future.

Management has been successful in obtaining sufficient funding for operating, capital and exploration requirements from the inception of the Company to date. There is, however, no assurance that additional future funding will be available to the Company, or that it will be available on terms which are acceptable to management.

These consolidated financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported amounts of expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate and such adjustments could be material.

## **2. Basis of presentation**

### **Statement of compliance**

These unaudited consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34").

These consolidated interim financial statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the years ended December 31, 2012 and 2011, which have been prepared in accordance with IFRS.

These financial statements were approved by the board of directors for issue on November 21, 2013.

### **Basis of measurement**

These consolidated financial statements have been prepared on a historical cost basis and are expressed in United States dollars, which is the Company's presentation currency.

### **Basis of consolidation**

Aura Silver Resources Inc. was incorporated under the Business Corporations Act (Ontario) by Articles of Amalgamation dated July 12, 1988. On June 9, 2006 the shareholders approved a name change to Aura Silver Resources Inc. and continued the Company under the Canada Business Corporation Act. On December 16, 2005, Aura Silver Resources Inc. acquired all of the issued and outstanding shares of Au Martinique Inc. ("Au Martinique") which had been operating since October 27, 2003, in exchange for 14,534,120 common shares and 6,576,825 warrants valued, in the aggregate, at \$973,500. The share exchange was accounted for as a reverse take-over with Au Martinique deemed to be the acquiror for accounting purposes. Consequently, Au Martinique's assets and liabilities were carried forward into the consolidated statement of financial position at their historical carrying values. As Aura Silver Resources Inc. had no assets at the acquisition date, the fair value of the common shares and warrants provided for the acquisition were charged to accumulated deficit.

On May 4, 2010, Aura Resources Mexico S.A. de C.V. was incorporated as a wholly-owned Mexican subsidiary of Aura Silver Resources Inc.

These consolidated financial statements include the assets, liabilities and expenses of Aura Silver Resources Inc. and its wholly-owned subsidiaries Au Martinique (which is inactive) and Aura Resources Mexico S.A. de C.V. All inter-company balances and transactions have been eliminated upon consolidation.

(expressed in U.S. dollars)

**Critical accounting estimates, judgments and estimation uncertainties**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures in the notes thereto. These estimates and assumptions are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates. The most significant items requiring the use of management estimates and valuation assumptions are related to the recoverable value of mineral exploration properties and deferred exploration expenditures; the valuation of all liability and equity instruments including flow-through share premiums, warrants, compensation options and stock options; and, the ability of the Company to continue as a going concern.

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

Determining whether to test for impairment of mineral exploration properties and deferred exploration assets requires management's judgment regarding the following factors, among others: the period for which the entity has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration assets are unlikely to be recovered in full from successful development or by sale.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined. Identifying the cash-generating units requires management judgment. In testing an individual asset or cash-generating unit for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the cash-generating unit. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation and significant adjustments to the Company's assets and earnings may occur during the next period.

The estimation of share-based payment costs and warrants treated as liabilities requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The model used by the Company is the Black-Scholes valuation model. The Company has made estimates as to the volatility of its own common shares, the probable life of share options, warrants and compensation options granted and the time of exercise of those instruments.

The Company allocates values to share capital and to warrants according to their fair value using the proportional method when the two are issued together as a unit. The Company uses the Black-Scholes valuation model to determine the fair value of warrants issued.

These financial statements have been prepared on a basis which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions. Further information regarding going concern is outlined in note 1.

**3. Summary of significant accounting policies**

These consolidated interim financial statements have been prepared using accounting policies that are consistent with those used in the preparation of the Company's audited annual consolidated financial statements for the years ended December 31, 2012 and 2011.

**4. Amounts receivable**

	September 30, 2013 \$	December 31, 2012 \$
Harmonized sales tax (HST) receivable	5,556	9,942
Interest receivable	802	-
Other receivable	2,270	230
	<u>8,628</u>	<u>10,172</u>

**5. Equipment**

	September 30, 2013			December 31, 2012		
	Cost \$	Accumulated amortization \$	Net \$	Cost \$	Accumulated amortization \$	Net \$
Computers	1,275	1,153	122	1,275	1,120	155
Office furniture and equipment	2,349	1,853	496	2,349	1,771	578
	<u>3,624</u>	<u>3,006</u>	<u>618</u>	<u>3,624</u>	<u>2,891</u>	<u>733</u>



**Aura Silver Resources Inc.**  
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Notes to Unaudited Condensed Consolidated Financial Statements  
**September 30, 2013 and 2012**

(expressed in U.S. dollars)

**6. Mineral exploration properties and deferred exploration expenditures**

	<b>Taviche (Mexico)</b>	<b>Greyhound (Canada)</b>	<b>Total</b>
<b>Mineral exploration properties:</b>			
<b>Balance, December 31, 2011</b>	\$ 1,005,759	\$ 121,756	\$ 1,127,515
Claim fees and property costs	158,357	75	158,432
Refund of Mexican value added tax	(26,157)	-	(26,157)
Translation to reporting currency	-	(3,120)	(3,120)
Impairment of mineral exploration properties	(1,137,959)	(118,711)	(1,256,670)
<b>Balance, December 31, 2012</b>	-	-	-
Claim fees and property costs	150,005	3,692	153,697
Translation to reporting currency	-	(7)	(7)
<b>Balance, September 30, 2013</b>	\$ 150,005	\$ 3,685	\$ 153,690
<b>Deferred exploration expenditures:</b>			
<b>Balance, December 31, 2011</b>	\$ 3,523,744	\$ 6,565,370	\$ 10,089,114
Geology	8,035	129,116	137,151
Geochemical	-	30,684	30,684
Drilling and related	-	23,736	23,736
Assaying	-	353	353
Report preparation	-	8,880	8,880
General field costs	137,039	-	137,039
Refund of Mexican value added tax	(34,092)	-	(34,092)
Translation to reporting currency	-	(166,016)	(166,016)
Impairment of deferred exploration expenditures	(3,634,726)	(6,592,123)	(10,226,849)
<b>Balance, December 31, 2012</b>	-	-	-
Geology	5,748	19,780	25,528
General field costs	44,671	-	44,671
Report preparation	952	-	952
Translation to reporting currency	-	224	224
<b>Balance, September 30, 2013</b>	\$ 51,371	\$ 20,004	\$ 71,375

**Taviche - Mexico**

On June 8, 2009, the Company concluded a definitive option agreement with Plata Panamericana S.A. de C.V. ("Plata", a wholly-owned subsidiary of Pan American Silver Corporation ("PanAm")), Intrepid Mines Limited and Intrepid Minerals Corporation (collectively "Intrepid"). This definitive option agreement confirmed and superseded all prior agreements (which were entered into during 2006) for a potential joint venture with Intrepid and PanAm with respect to the Taviche properties in Oaxaca State, Mexico. The property concessions subject of the option agreement consisted of the East and West Taviche concessions and the Alma Delia concession. Under the terms of the option agreement the Company and Intrepid (the "Taviche JV") were able to jointly earn a 70% interest in the properties by spending a minimum of \$4.0 million over five years on exploration and making option payments totalling \$790,000 over the same period. During the remainder of the five year option period with Plata, the Company and Intrepid could equally share exploration expenses and payment requirements or either party's interest in the project would be diluted. Initially, Intrepid had the right to act as operator of the project.

On March 10, 2010, Intrepid notified the Company that it would not participate in funding the next phase of exploration for the Taviche project and, therefore, would allow its participating interest in the project to be diluted by the Company's ongoing funding of project costs. Operatorship of the project was transferred to the Company during March 2010. Intrepid has not provided further funding since this time. As at September 30, 2013, the Company's and Intrepid's ownership interests are 71.3% and 28.7%, respectively.

During April 2012, the Company, Intrepid and Plata entered into a new agreement which supersedes the option agreement and established the ownership interests of each party in the Taviche and Alma Delia concessions and related matters. Under the terms of the new agreement the Taviche JV acquired a full 100% ownership interest in both the East Taviche and Alma Delia concessions while Plata retained a 100% ownership position in the West Taviche concession. The Taviche JV was entitled to receive a cash payment of \$2.0 million, dependent on certain sale or disposition transactions undertaken by Plata in excess of a 70% interest with respect to the West Taviche property (see below). Plata refunded the final earn-in payment of \$250,000 paid in September 2011. Additionally, the Taviche JV granted Plata a 1.5% net smelter royalty as well as a right of first offer on the East Taviche and Alma Delia concessions based on certain terms and conditions. The agreement vested a 100% ownership position in East Taviche (7,470 hectares) and Alma Delia (38,616 hectares) with the Taviche JV.

During February 2013, the Taviche JV determined that it would not renew the Alma Delia concession in order to focus on the core project holdings at East Taviche and to reduce project land maintenance costs.

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(expressed in U.S. dollars)

On July 24, 2013, the Company received a cash payment of \$1,309,111 from Plata Panamericana S.A. de C.V. This payment was triggered by the completion of Plata's sale of the West Taviche concession to Fortuna Silver Mines Inc. and was in accordance with the April 2012 agreement between the Taviche JV and Pan Am. The payment was comprised of the Company's pro-rata share of the total payment of \$2 million paid to the Taviche JV of \$1,412,000 net of prior concession fees of \$102,889 related to East Taviche which were reimbursable to Plata. The amount of \$1,412,000 has been recorded as other income in the consolidated statement of operations and comprehensive income (loss).

Effective December 31, 2012, due to prevailing junior resource market conditions and the uncertainty associated with the Company's ability to retain its interest in and exploit any future economic benefit from the Taviche, Mexico project, the Company recorded a full impairment charge totalling \$4,772,685 with respect to the mineral exploration property costs and deferred exploration expenditures associated with the project.

**Greyhound - Nunavut, Canada**

During June, 2006, the Company staked claims relating to a gold, silver and base metal prospect at Greyhound Lake in the central Churchill region of Nunavut, Canada. During the second quarter of 2008, the Company increased its claim holdings for the Greyhound project. Staking and claim costs of \$64,744 were incurred. During the third quarter of 2009, one additional claim was added. Staking and claim costs were \$3,058. During the fourth quarter of 2010, five additional claims were added. Staking and claim costs were \$11,024. During the third quarter of 2011 a total of 26 additional claims were added. Staking and claim costs were \$30,837.

The Company has a 100% direct ownership interest in the Greyhound project.

Effective December 31, 2012, due to prevailing junior resource market conditions and the uncertainty associated with the Company's ability to exploit any future economic benefit from the Greyhound, Nunavut project, the Company recorded a full impairment charge totalling \$6,710,834 with respect to the mineral exploration property costs and deferred exploration expenditures associated with the project.

**7. Accounts payable and accrued liabilities**

	<b>September 30, 2013 \$</b>	<b>December 31, 2012 \$</b>
Trade accounts payable	10,494	46,701
Accrued liabilities	88,695	179,067
	<u>99,189</u>	<u>225,768</u>

**8. Warrants denominated in US dollars**

The Company issued certain warrants with US dollar exercise prices in connection with private placement financings completed during February 2010 and October 2010. These warrants entitled the holders to acquire a fixed number of common shares for a fixed US dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the consolidated statement of operations and comprehensive income (loss) as they arise. The Company has recorded these changes in other gains and losses.

During October 2012 and February 2013 the US dollar denominated warrants expired. During the nine month period ended September 30, 2012 a gain of \$10,581 was recorded with respect to these warrants.

**9. Capital stock**

**Authorized**

The Company is authorized to issue an unlimited number of common shares, having no par value, and an unlimited number of preference shares, having no par value, in one or more series with the rights, privileges and conditions as determined by the Board of Directors at the time of issuance.

**Issued**

During July and August 2012, the Company completed a non-brokered private placement financing of units. A total of 4,000,000 units were issued for gross proceeds of \$198,607 (CDN \$200,000). Each unit is comprised of one common share and one warrant exercisable at CDN \$0.10 per share expiring either July 3 or August 9, 2014. Finder's fees payable in connection with the private placement included cash of \$2,400 and 48,000 compensation options. Compensation options are exercisable at \$0.05 per unit to obtain a common share and a warrant with the same terms as those issued in the private placement. The compensation options expire August 9, 2014. These agent compensation options were valued at \$1,400.

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(expressed in U.S. dollars)

**Warrants**

As at September 30, 2013, details with respect to outstanding warrants are as follows:

<b>Number</b>	<b>Exercise Price</b>	<b>Expiry</b>
2,000,000	CDN \$0.10	July 3, 2014
2,000,000	CDN \$0.10	August 9, 2014
<b>4,000,000</b>		

During February 2012, the Company extended the expiry dates of certain outstanding warrants by a one year period as detailed below. The change in fair value of these warrants resulting from the extensions was determined to be \$135,270 utilizing the Black-Scholes option pricing model. The increase in the fair value of warrants was recorded as a reduction of contributed surplus.

<b>Exercise price</b>	<b>Number of warrants</b>	<b>Original expiry date</b>	<b>Amended expiry date</b>
CDN \$0.25	6,430,000	February 22, 2012	February 22, 2013
US \$0.24	900,000	February 22, 2012	February 22, 2013
CDN \$0.25	2,675,000	April 22, 2012	April 22, 2013
CDN \$0.25	1,100,000	May 3, 2012	May 3, 2013
CDN \$0.25	5,000,000	June 3, 2012	June 3, 2013

The fair value of warrants which are treated as equity have been estimated using the Black-Scholes option pricing model and this value has been presented as a separate component of shareholders' equity. The assumptions used for the valuation of these warrants during 2012 and 2011 are as follows: dividend yield of nil, expected volatility ranging from 91% to 103%, risk-free interest rate ranging from 0.14% to 0.97% and an expected life of the warrants of two years.

The fair value of warrants with an exercise price denominated in US dollars which were treated as liabilities have been estimated using the Black-Scholes option pricing model. The assumptions used for the valuation of these warrants during 2012 and 2011 are as follows: dividend yield of nil, expected volatility ranging from 91% to 103%, risk-free interest rate ranging from 0.20% to 1.10% and an expected life of the warrants of two years. During October 2012 and February 2013 the US dollar denominated warrants expired.

**Compensation options and compensation option warrants**

The Company has provided compensation options to agents who refer investors to the Company. Compensation options are exercisable into equity instruments having the same attributes as those purchased by the referred investor. As at September 30, 2013 outstanding compensation options are summarized as follows:

<b>Number</b>	<b>Exercise Price</b>	<b>Expiry</b>
48,000	CDN \$0.10	August 9, 2014

On June 10, 2013, a total of 620,000 compensation options exercisable at CDN \$0.25 expired. On September 1, 2013, a total of 982,725 compensation options exercisable at CDN \$0.15 expired. During the year ended December 31, 2012 the following compensation options expired: 134,500 exercisable at CDN \$0.25 expired April 22, 2012; 70,000 exercisable at CDN \$0.25 expired May 3, 2012; 372,500 exercisable at CDN \$0.25 expired June 3, 2012; and, 905,073 exercisable at CDN \$0.16 expired October 15, 2012.

As at September 30, 2013, outstanding compensation options are exercisable for units comprised of one common share and one whole common share purchase warrant. Warrants potentially issuable upon the exercise of compensation options are as follows: 48,000 warrants exercisable at CDN \$0.10 expiring August 9, 2014.

Outstanding compensation options were recorded at a total value of \$1,400 using the Black-Scholes option pricing model. The assumptions used for the valuation of compensation options during 2012 and 2011 are as follows: dividend yield of nil, expected volatility 91% to 103%, risk-free interest rate of 0.14% to 1.14% and an expected life of the options of two years.

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**Stock options**

On July 8, 2005, the Company's shareholders approved the creation of the Company's stock option plan (the "Plan"). Eligible participants in the Plan include directors, officers, employees and consultants to the Company. The exercise price of the options granted under the Plan is fixed by the Board of Directors but may not be less than the Discounted Market Price, as that term is defined by the TSX Venture Exchange, of the shares at the time the option is granted. Options granted under the Plan have a five year life subject to earlier expiry upon the termination of the optionee's employment or the optionee ceasing to be a director or officer of the Company. Options vest with Plan participants as follows: 10% at the date of grant and 15% quarterly over the eighteen month period following the date of grant. On June 28, 2012, shareholders of the Company approved an amendment to the Plan to increase the maximum number of common shares reserved for issuance under the Plan from 5,700,000 to 9,700,000.

Activity with respect to stock options is summarized as follows:

	Number	Weighted- average exercise price CDN \$	Expiry
<b>Balance, December 31, 2011</b>	5,259,500	0.22	February 2012 to August 2016
Granted	450,000	0.10	May 2017
Expired	(250,000)	0.30	February 2012
<b>Balance, December 31, 2012</b>	5,459,500	0.20	April 2013 to May 2017
Expired	(249,500)	0.17	April 2013
<b>Balance, September 30, 2013</b>	5,210,000	0.21	May 2015 to May 2017

As at September 30, 2013 outstanding stock options are as follows:

Options outstanding			Options exercisable		
Exercise price CDN \$	Number of options	Weighted- average remaining contractual life (years)	Number of options	Weighted- average remaining contractual life (years)	Expiry
0.10	450,000	3.7	382,500	3.7	May 25, 2017
0.20	2,260,000	1.6	2,260,000	1.6	May 1, 2015
0.23	2,400,000	2.8	2,400,000	2.8	July 1, 2016
0.23	100,000	2.8	100,000	2.8	August 1, 2016
	<u>5,210,000</u>	2.3	<u>5,142,500</u>	2.3	

As at December 31, 2012, a total of 4,814,500 stock options were exercisable.

During the nine month period ended September 30, 2013, the Company recorded a total of \$4,400 (2012 - \$159,068) related to stock based compensation with respect to stock options. Of this total, \$2,025 (2012 - \$76,125) was charged to stock based compensation expense and \$2,375 (2012 - \$82,943) was capitalized as deferred exploration expenditures. Total stock based compensation amounts are included in shareholders' equity as contributed surplus. The values were determined using the Black-Scholes option pricing model, at the grant date, with the following assumptions:

	<u>2012</u>	<u>2011</u>
Expected volatility	95%	95%
Expected option life (in years)	3.0	3.0
Risk-free interest rate	1.02%	0.91%
Expected dividend yield	0%	0%
Weighted-average exercise price	0.10	0.23
Weighted-average market price at grant date	0.03	0.23
Weighted-average fair value	0.01	0.14

The Company determines expected volatility in relation to both historical Company volatility and by analysis of comparable companies in the mineral exploration sector.

(expressed in U.S. dollars)

# 10. Related party transactions and compensation of key management and directors

Key management includes all persons named or performing the duties of Chief Executive Officer, President, Chief Financial Officer, Vice-President and the directors of the Company. Compensation awarded to key management and directors included:

	Three months ended September 30, 2013 \$	Three months ended September 30, 2012 \$	Nine months ended September 30, 2013 \$	Nine months ended September 30, 2012 \$
Management service contract payments	49,484	61,626	166,803	170,108
Stock option compensation charges at fair value	678	37,740	3,328	110,416
	<u>50,162</u>	<u>99,366</u>	<u>170,131</u>	<u>280,524</u>

During October 2012, the Company's Chief Executive Officer advanced \$60,410 (CDN \$60,000) to the Company by way of a promissory demand note payable. This promissory note is payable on demand, is non-interest bearing and is unsecured. During February 2013, the Company's Chief Executive Officer advanced \$149,793 (CDN \$150,000) to the Company by way of a promissory demand note payable. This promissory note is payable on demand, is non-interest bearing and is unsecured. During July 2013, these promissory notes were repaid in full.

During May 2012, the Company entered into a consulting agreement with RG Mining Investments Inc. ("RGMI") for the services of its Vice President, Exploration. A director of the Company is the Managing Director of RGMI. During the nine month period ended September 30, 2013, the Company recorded a total of \$17,415 for services under the terms of the consulting agreement.

As at September 30, 2013, a total of \$34,460 is included in accounts payable and accrued liabilities with respect to amounts due to Company officers and related parties.

# 11. Financial instruments and risk management

The Company's financial instruments consist of cash, accounts payable and accrued liabilities and the related party demand notes payable. It is management's opinion that the Company is not exposed to significant interest rate or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. The Company examines the various financial risks to which it may be exposed and assesses the impact and likelihood of those risks. The Company may be exposed to various financial risks related to credit risk, liquidity risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors of the Company.

## Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk have consisted of cash and cash equivalents and short-term investments. The Company's cash and cash equivalents and short-term investments, which consist of Canadian dollar denominated guaranteed investment certificates, are held with a major Canadian financial institution. The maximum exposure is equivalent to the carrying amounts. As at September 30, 2013, the Company did not hold any cash equivalents and held short-term investments of \$534,990 (CDN \$550,000). The Company does not consider any of its financial assets to be impaired.

## Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (see note 1). The Company manages liquidity risk through monitoring cash outflows due in its day-to-day business and by regular cash flow forecasting of cash requirements to fund exploration projects and operating costs. As at September 30, 2013, the Company's liabilities include trade accounts payable and accrued liabilities all of which are due within normal trade terms of generally 30 days.

## Currency risk

The Company is primarily exposed to financial risk arising from fluctuations in foreign exchange rates with respect to the United States dollar. As at September 30, 2013, the Company held cash in United States dollars of \$262,781 (December 31, 2012 - \$296). The Company has not utilized derivative instruments to reduce its exposure to foreign currency risk.

## Interest rate risk

Financial instruments that expose the Company to interest rate risk have included cash equivalents and short-term investments invested in guaranteed investment certificates. As at September 30, 2013, the Company held short-term investments of CDN \$550,000. Total interest income for the nine month period ended September 30, 2013 was \$802. Short-term investments bear interest at a fixed rate and the Company is, therefore, periodically exposed to the risk of changes in fair value resulting from interest rate fluctuations. Fluctuations in market interest rates during 2013 would not have had a material impact on the Company's financial results.

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**12. Segmented information**

The Company's operations comprise one reportable segment being the exploration and development of mineral resource properties. The Company's corporate and administrative offices are in Canada. The Company's exploration assets are in Canada and Mexico. Capital assets segmented by geographic area are as follows:

	<b>September 30, 2013</b>			<b>December 31, 2012</b>		
	<b>Equipment</b>	<b>Mineral exploration properties</b>	<b>Deferred exploration expenditures</b>	<b>Equipment</b>	<b>Mineral exploration properties</b>	<b>Deferred exploration expenditures</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Canada	618	3,685	20,004	733	-	-
Mexico	-	150,005	51,371	-	-	-
	<b>618</b>	<b>153,690</b>	<b>71,375</b>	<b>733</b>	<b>-</b>	<b>-</b>

**13. Capital structure**

The Company's capital structure is comprised of shareholders' equity. The Company is not subject to externally imposed capital requirements. The Company's objectives when managing its capital structure are to preserve the Company's access to capital markets and its ability to meet its financial obligations and to finance its exploration activities and general corporate costs.

The Company monitors its capital structure using future forecasts of cash flows, particularly those related to its exploration programs.

The Company manages its capital structure and makes adjustments to it to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust its exploration programs, operating expenditure plans, or issue new common shares and warrants. The Company's capital management objectives have remained unchanged over the periods presented in these consolidated financial statements.