PACIFIC IMPERIAL MINES INC.

Consolidated Financial Statements

For the Years Ended June 30, 2013 and 2012

(Expressed in Canadian Dollars)

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MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Pacific Imperial Mines Inc.

We have audited the accompanying consolidated financial statements of Pacific Imperial Mines Inc. which comprise the consolidated statements of financial position as at June 30, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pacific Imperial Mines Inc. as at June 30, 2013 and 2012, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Pacific Imperial Mines Inc. to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

October 25, 2013

PACIFIC IMPERIAL MINES INC.
Consolidated Statements of Financial Position
As at June 30, 2013 and 2012
(Expressed in Canadian Dollars)

	Note	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents		$ 334,641	$ 209,429
Advances and sundry receivables		12,347	12,975
Prepaid expenses		5,133	-
		352,121	222,404
Equipment	3	910	823
Total assets		$ 353,031	$ 223,227
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 173,008	$ 3,283
Due to related parties	5	4,158	-
Total liabilities		177,166	3,283
SHAREHOLDERS' EQUITY			
Share capital	6	2,852,673	2,332,385
Contributed surplus		2,296,194	2,294,194
Deficit		(4,973,002)	(4,406,635)
Total shareholders' equity		175,865	219,944
Total liabilities and shareholders' equity		$ 353,031	$ 223,227

Nature of business and continuance of operation (Note 1)
Commitments (Note 4)
Subsequent event (Note 12)

Approved and authorized for issue on behalf of the Board on October 25, 2013:

"Roman Shklanka"
Roman Shklanka, Director

"Leo King"
Leo King, Director

(The accompanying notes are an integral part of these consolidated financial statements)

PACIFIC IMPERIAL MINES INC.

Consolidated Statements of Comprehensive Loss
For the Years Ended June 30, 2013 and 2012
(Expressed in Canadian Dollars)

		2013		2012
EXPLORATION COSTS	$	316,934	$	-
GENERAL AND ADMINISTRATIVE EXPENSES				
Accounting and audit		35,625		35,405
Depreciation		306		353
Legal		6,323		5,408
Management fees		33,300		34,800
Office and miscellaneous		18,641		15,386
Promotion		4,254		3,709
Property investigation and travel		23,961		52,158
Share-based payment		-		102,964
Transfer agent fees		5,166		3,958
Wages and benefits		121,226		124,346
LOSS BEFORE OTHER ITEMS		565,736		378,487
OTHER ITEMS				
Interest income		(1,958)		(577)
Foreign exchange loss		2,589		20
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$	566,367	$	377,930
Loss per share - basic and diluted	$	(0.02)	$	(0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		23,209,091		18,841,968

(The accompanying notes are an integral part of these consolidated financial statements)

PACIFIC IMPERIAL MINES INC.

Consolidated Statements of Shareholders' Equity

For the Years Ended June 30, 2013 and 2012

(Expressed in Canadian Dollars)

	Share Capital				Total
	Shares	Amount	Deficit	Contributed Surplus	Shareholders' Equity
Balance, June 30, 2011	18,841,968	$ 2,032,385	$ (4,028,705)	$ 2,191,230	$ 194,910
Net loss for the year	-	-	(377,930)	-	(377,930)
Shares issued for cash:					
Proceeds of private placement received	-	300,000	-	-	300,000
Share-based payment	-	-	-	102,964	102,964
Balance, June 30, 2012	18,841,968	2,332,385	(4,406,635)	2,294,194	219,944
Net loss for the year	-	-	(566,367)	-	(566,367)
Shares issued for cash:					
Private placement	9,000,000	550,000	-	-	550,000
Share issuance costs	-	(27,712)	-	-	(27,712)
Fair value of agent warrants issued	-	(2,000)	-	2,000	-
Balance, June 30, 2013	27,841,968	$ 2,852,673	$ (4,973,002)	$ 2,296,194	$ 175,865

(The accompanying notes are integral part of these consolidated financial statements)

PACIFIC IMPERIAL MINES INC.

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012
(Expressed in Canadian Dollars)

	2013	2012
Cash flows provided by (used in) operating activities		
Net Loss for the year	$ (566,367)	$ (377,930)
Adjustment for items not involving cash:		
Depreciation	306	353
Share-based payment	-	102,964
	(566,061)	(274,613)
Changes in operating assets and liabilities:		
Advances and sundry receivable	628	(299)
Prepaid expenses	(5,133)	-
Accounts payable and accrued liabilities	169,725	(14,425)
Net cash used in operating activities	(400,841)	(289,337)
Cash flows used in investing activities		
Purchase of equipment	(393)	-
Net cash used in investing activities	(393)	-
Cash flows provided by (used in) financing activities		
Cash received from shares issued	550,000	300,000
Share issuance costs	(27,712)	-
Advances from (repayable to) related parties	4,158	(11,582)
Net cash provided by financing activities	526,446	288,418
Increase (Decrease) in cash and cash equivalents	125,212	(919)
Cash and cash equivalents, beginning of year	209,429	210,348
Cash and cash equivalents, end of year	$ 334,641	$ 209,429

	2013	2012
Supplemental disclosure of cash flow information:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

(The accompanying notes are an integral part of these consolidated financial statements)

1. Nature of Business and Continuance of Operation

Pacific Imperial Mines Inc. ("the Company") was incorporated under the British Columbia Business Corporations Act since September 18, 1987. The Company's shares are listed on the TSX Venture Exchange. The Company's principal office is located at Suite 550, 800 West Pender Street, Vancouver, BC V6C 1G8. The principal business of the Company is the identification, evaluation and acquisition of mineral properties, as well as exploration of mineral properties once acquired.

These consolidated financial statements include the Company's wholly owned subsidiary, Pacific Imperial Mineração do Brasil Ltda. ("Pacific Imperial Brazil"), a company incorporated in Brazil on September 2, 2012.

These consolidated financial statements of the Company have been prepared on a going-concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has experienced losses since its inception amounting to $4,973,002 as of June 30, 2013 (2012 - $4,406,635). The ability of the Company to meet its commitments as they become payable is dependent on the ability of the Company to acquire assets or a business or an interest therein, obtain the necessary financing, and develop assets or operations which will generate cash flows, either as a result of their disposal or from ongoing operations. The Company does not currently have assets or a business capable of generating ongoing cash flows. Although the Company has sufficient cash to meet its current administrative costs, there is no assurance that the Company will be successful in making an acquisition or in raising the necessary financing to do so. These conditions along with other matters indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. While the consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions may cast substantial doubt upon the validity of this assumption.

In the event the Company is unable to arrange appropriate financing, the carrying value of the Company's assets could be subject to material adjustment. Furthermore, certain market conditions may cast significant doubt upon the validity of the going concern assumption.

These consolidated financial statements do not give effect to adjustments, if any, 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 in other than the normal course of business and at amounts which may differ from those shown in the consolidated financial statements.

2. Summary of Significant Accounting Policies

(a) Basis of presentation and statement of compliance with International Financial Reporting Standards

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

These consolidated financial statements for the year ended June 30, 2013 have been authorized for release by the Company's Board of Directors on October 25, 2013.

The consolidated financial statements have been prepared on the historical costs, except for certain financial instruments which are recorded at fair value as described in Note 2(m). In addition, these consolidated financial statements have been prepared using the accrual method of accounting except for cash flow information.

2. Summary of Significant Accounting Policies (continued)

(b) Basis of Consolidation

These consolidated financial statements consolidate the assets and operations of the Company and its wholly-owned subsidiary, Pacific Imperial Brazil. All intercompany transactions, balances and unrealized gains and losses from inter-company transactions are eliminated upon consolidation.

(c) Use of estimates and judgements

Estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the amounts reported in the financial statements and the related notes to the financial statements during the reporting period.

Significant areas requiring the use of management estimates include the decommissioning liabilities on mineral interests, recoverability and measurement of deferred tax assets and liabilities and the assumptions used in valuing options and warrants in share-based payment calculations. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Critical judgements

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgements or assessments with a significant risk of material adjustment in the next year. Critical accounting judgements are going concern and determination of functional currency.

(d) Cash equivalents

Cash equivalents consist of highly liquid investments which are readily convertible into known amounts of cash that have original maturities of three months or less when purchased.

(e) Equipment

Equipment is recorded at cost and amortized at the following rates per annum using the declining balance method:

Computer equipment and software	- 30%
Office equipment and furniture	- 20%

Additions during the period are amortized at one-half the normal rate in the period of acquisition.

2. Summary of Significant Accounting Policies (continued)

(f) Impairment

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized in earnings or the results of discontinued operations, as appropriate, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units" or "CGUs"). The Company evaluates impairment losses other than goodwill impairment, for potential reversals, when events or changes in circumstances warrant such consideration.

(g) Mineral interests

The Company follows the method of accounting for its mineral interests whereby costs for acquisition of mineral interest or rights to explore and costs related to exploration and evaluation of a property are expensed when incurred until such time that the technical feasibility and commercial viability of the project is demonstrable. Exploration and development costs incurred are capitalized after the technical feasibility and commercial viability of a project is demonstrated and a development decision has been made. The capitalized costs of the related property are depreciated using the units of production method on commencement of commercial production. If it is determined that capitalized costs are not recoverable, or management has determined an impairment in value, the property is written down to its recoverable amount. Mineral properties capitalized are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

(h) Decommisioning liabilities

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities and may from time to time incur decommissioning liabilities and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding expense is recorded to net loss in the period that it is recognized. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at June 30, 2013 and 2012, the Company had not incurred any decommissioning liabilities related to the exploration and development of its mineral interests.

(i) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

2. Summary of Significant Accounting Policies (continued)

(j) Income taxes

Income tax expense comprises current and deferred income tax. Tax is recognized in the income statement except to the extent that it relates to items recognized directly into equity, in which case the related tax effect is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current expense tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period.

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable income. Deferred tax is calculated based on the expected manner in which temporary differences related to the carrying amounts of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement using tax rates and laws enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and which do not affect accounting or taxable profit or loss at the time of the transaction. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

(k) Basic and diluted loss per share

Loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted earnings (loss) per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

(l) Share-based payment

The Company has a share-based payment plan as disclosed in Note 6, whereby stock options are granted in accordance with the policies of regulatory authorities. The Company uses a fair value based method of accounting for stock options to directors and employees. Stock options granted to non-employees are valued based on the fair value of the goods or services received, when fair value cannot be estimated reliably, the Company uses a fair value based method of accounting for stock options granted to non-employees. The fair value is determined using the Black-Scholes option pricing model with assumptions for risk-free interest rate, volatility, expected forfeiture and life of the options or warrants. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. The cost is recognized over the applicable vesting period as an increase in share-based payment expense, with the offset credit to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

2. Summary of Significant Accounting Policies (continued)

(m) Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or financial assets at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash and cash equivalents are classified as financial assets at FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. The Company does not have any assets classified as held to maturity, loans and receivables or available for sale financial assets at this time.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as financial liabilities at FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized costs using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and due to related parties are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings. The Company is not exposed to any derivative instruments and foreign exchange hedges in place at this time.

2. Summary of Significant Accounting Policies (continued)

(n) Foreign exchange

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The individual financial records of the Company's subsidiary is kept in the currency of the primary economic environment in which each entity operates (their "functional currency"). The functional currency of Pacific Imperial Brazil is the Canadian dollar.

The accounts recorded in foreign currencies have been translated into Canadian dollars on the following basis:

(a) monetary assets and liabilities at the rate of exchange in effect at the financial statement date;

(b) non-monetary assets and liabilities at the rates of exchange in effect on the respective dates of transactions; and

(c) revenue and expenses at the exchange rates prevailing of the date of the transaction.

(o) Adoption of accounting standards

The Company adopted the following account policies effective July 1, 2012:

IAS 1, Presentation of Financial Statements

This amendment requires entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. It also requires tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items. The adoption of this new standard did not impact the Company's financial statements.

IAS 12, Income taxes

This amendment requires entities to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. As a result of this amendment, SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The adoption of this new standard did not impact the Company's financial statements.

(p) Accounting standards issued but not yet applied

IFRS 7, Financial Instruments: Disclosures

The amendments will increase disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions undertaken around the end of the reporting period, and the possible effects of any risks that may remain with the entity that transferred the asset. This new standard, which is applicable for annual periods beginning on or after January 1, 2013, is not expected to significantly impact the Company.

2. Summary of Significant Accounting Policies (continued)

(p) Accounting standards issued but not yet applied (continued)

IFRS 9, Financial Instruments

This new standard introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39, Financial Instruments: Recognition and measurement, derecognition of financial assets and liabilities.

In December 2011, the IASB extended the mandatory effective date to on or after January 1, 2015 with early adoption permitted. As a result, there were amendments to IAS 32, Financial Instruments: Presentation to clarify the offsetting between financial assets and liabilities, which are mandatory effective on or after January 1, 2014. The Company has not yet assessed the impact of this standard

IFRS 10, Consolidated Financial Statements

This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This new standard is effective for periods beginning on or after January 1, 2013, with early application permitted, and is not expected to significantly impact the Company.

IFRS 11, Joint arrangements

The standard provides for accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. This standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. This new standard is effective for periods beginning on or after January 1, 2013, with early application permitted, and is not expected to significantly impact the Company.

IFRS 12, Disclosure of Interests in Other Entities

This standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted, and is not expected to significantly impact the Company.

IFRS 13, Fair value measurement

The standard sets out in a single IFRS a framework for measurement of fair value and related disclosures. The definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. This new standard is applicable for periods beginning on or after January 1, 2013, with early application permitted, and is not expected to significantly impact the Company.

(Expressed in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

(p) Accounting standards issued but not yet applied (continued)

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 addresses the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. Stripping activity may result in two types of benefits: i) inventory produced and ii) improved access to ore that will be mined in the future. Stripping costs associated with inventory production should be accounted for as a current production cost in accordance with IAS 2 Inventories, and those associated with improved access to ore should be accounted for as an addition to, or enhancement of, an existing asset. This new standard is applicable for periods beginning on or after July 1, 2013, with early application permitted. The Company has assessed that there is no impact to the Company's consolidated financial statements in adoption of this standard.

Amendments to other standards effective January 1, 2013

Amendments have been made to IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13. The Company has assessed that there is no impact to the Company's consolidated financial statements in adoption of this standard.

3. Equipment

June 30, 2013		Cost	Accumulated Amortization		Net Book Value
Computer and software		4,584	3,674		910
Total	$	4,584	3,674	$	910
June 30, 2012					
Computer and software		4,191	3,368		823
Total	$	4,191	3,368	$	823

(Expressed in Canadian Dollars)

4. Mineral Interests

On January 17, 2013, the Company, through its newly incorporated wholly owned subsidiary Pacific Imperial Brazil entered into an agreement with Companhia Baiana de Pesquisa Mineral (CBPM), a state-owned mineral exploration company in Brazil, whereby the Company acquired an option to earn a 100% interest in the Marcionilio nickel-copper property, subject to a 3% net smelter return royalty retained by CBPM. In accordance with the agreement, the Company is committed to expend R$500,000 (approximately Cdn$238,100) during the first year and, if the Company elects to continue, an additional R$500,000 during the second year for a total of R$1,000,000 (approximately Cdn$476,200). The Company may terminate the agreement within 12 months from the date of the agreement. However, if the Company does not expend at least R$500,000 within the first 12 months, the Company is required to pay CBPM for the deficiency in cash. After 12 months from the date of the agreement, the Company is committed to expend a total of R$1,000,000 on the property or pay CBPM for the deficiency in cash. The Property is about 10,090 hectares in size, and is located in east-central Bahia State. (See also Note 12)

5. Related Party Balances and Transactions

Transactions with key management personnel and entities over which they have control or significant influence were as follows:

Key Management Personnel	Transaction	Year ended 2013	Year ended 2012	Amounts due to related parties 2013	Amounts due to related parties 2012
Albert Wu & Associates Ltd., controlled by Chief Financial Officer	Accounting fees	$ 19,125	$ 16,605	$ 4,135	$ -
Chelsia Cheam	Bookkeeping and Corporate Secretary services	3,000	3,000	23	-
H. Leo King & Associates Inc., controlled by the President	Management fees	4,500	6,000	-	-
Kobex Minerals Inc., controlled by a director in common	Management fees, rent and office costs	28,800	28,800	-	-
Directors and officers	Share-based payments	-	91,378	-	-
Total		$ 55,425	$ 145,783	$ 4,158	$ -

The amounts due to related parties are unsecured, have no specific terms of repayment and are non-interest bearing.

(Expressed in Canadian Dollars)

6. Share Capital

(a) Authorized: unlimited common shares with no par value

(b) Issued and outstanding:

During the year ended June 30, 2013:

On July 31, 2012, the Company completed a non-brokered private placement and issued 2,000,000 shares at $0.10 per share for gross proceeds of $200,000.

On February 19, 2013, the Company completed a non-brokered private placement and issued 7,000,000 units at $0.05 per unit for gross proceeds of $350,000. Each unit consisted of one common share and one non-transferrable share purchase warrant; each warrant entitles the holder to purchase one additional common share at a price of $0.10 per share for a period of 12 months. Cash finders' fees totaling $10,500 and legal fees of $17,212 were paid. In addition, 210,000 finders' warrants were issued entitling the Finder to purchase a total of 210,000 common shares for a period of 12 months at a price of $0.10 per common share.

The fair value of the finders' warrants charged to share issuance costs was $2,000 as determined using the Black Scholes Option Pricing model with the following weighted average assumptions:

	2013
Share price on grant date ($)	$0.05
Risk-free interest rate (%)	1.04%
Expected deivdend yield (%)	0%
Expected option life (Years)	1
Expected stock price volatility (%)	100%

The weighted average fair value of the finders' warrants granted was $0.01.

During the year ended June 30, 2012:

The Company received $300,000 in proceeds for a private placement that was completed on June 22, 2011.

(c) Options

The Company has adopted a stock option plan whereby the Company can grant stock options to directors, officers, employees and consultants to acquire up to 10% of the issued and outstanding share capital of the Company from time to time.

During the year ended June 30, 2013, the Company granted nil (2012 – 1,275,000) options to directors and officers. The Company charged share-based payments of $nil (2012 – $102,964) to operations. The Company used the Black-Scholes option pricing model with the following weighted average assumptions to value the options granted:

	2012
Share price on grant date ($)	$0.10
Risk-free interest rate (%)	1.31%
Expected deivdend yield (%)	0%
Expected option life (Years)	5
Expected stock price volatility (%)	130%

(Expressed in Canadian Dollars)

6. Share Capital

(c) Options (continued)

The weighted average fair value of options at grant date in 2012 was $0.08.

The changes in options were as follows:

	Number of Options	Average Exercise price
Balance, June 30, 2011	1,150,000	$0.209
Granted	1,275,000	0.102
Expired	(725,000)	0.273
Balance, June 30, 2012 and June 30, 2013	1,700,000	$0.101

Options outstanding and exercisable at June 30, 2013 were as follows:

Expiry Date	Number of Options	Exercise Price
October 25, 2015	425,000	$0.100
September 16, 2016	50,000	$0.150
June 12, 2017	1,225,000	$0.100
	1,700,000	

The weighted average life of the options outstanding and exercisable at June 30, 2013 is 3.52 years (2012 – 4.50 years)

(d) Share purchase warrants

The changes in warrants during the years ended June 30, 2013 and 2012 are as follows:

	2013		2012	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of year	-	$ -	-	$ -
Warrants granted	7,210,000	0.10	-	-
Warrants exercised	-	-	-	-
Warrants outstanding and exercisable, end of year	7,210,000	$ 0.10	-	$ -

The weighted average contractual life of the warrants is 0.64 year. The following table summarizes the warrants outstanding at June 30, 2013:

Number of Warrants	Exercise Price	Expiry Date
7,210,000	$ 0.10	February 19, 2014

7. Management of Capital

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises shareholders' equity.

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

The Company's investment policy is to invest its cash in financial instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

8. Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The Company's financial instruments consist of cash and cash equivalents, accounts payable and amount due to related parties. The fair value of these financial instruments approximates the carrying value because of the short-term nature of these instruments.

The following table summarizes information regarding the carrying values of the Company's financial instruments:

		June 30, 2013		June 30, 2012
Assets as FVTPL (i)	$	334,641	$	209,429
Other financial liabilities (ii)		169,775		3,283

(i) Cash and cash equivalents
(ii) Accounts payable and amounts due to related parties

Fair Value

The estimated fair values of cash and cash equivalents, accounts payable and amounts due to related parties approximate their respective carrying values due to the short periods to maturity. For fair value estimates, the Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1– Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – Significant unobservable inputs which are supported by little or no market activity.

(Expressed in Canadian Dollars)

8. Financial Instruments (continued)

Fair Value (continued)

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
June 30, 2013				
Cash and cash equivalents	$ 334,641	$ -	$ -	$ 334,641
June 30, 2012				
Cash and cash equivalents	$ 209,429	$ -	$ -	$ 209,429

The Company's risk exposures and the related potential impact on the Company's financial instruments are summarized below:

Credit Risk

The Company is not exposed to significant credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above.

The Company monitors its ability to meet its short-term administrative expenditures by raising additional funds through share issuance when required. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed commercial paper.

Foreign Exchange Risk

The Company is primarily exposed to currency fluctuations related to cash balances, amounts receivables and accounts payable held in Brazilian Real. As at June 30, 2013, the Company had assets of $112,905 denominated in Brazilian Real (June 30, 2012 - $Nil) and liabilities of $152,819 denominated in Brazilian Real (June 30, 2012 - $Nil).

Management believes that the exchange rate between the Canadian and Brazilian Real could fluctuate by 10% within the next 12 months. Based on the June 30, 2013 balance, an increase or decrease of 10% in the exchange rate between the Canadian and Brazilian Real would result in an increase or decrease of $4,700 (June 30, 2012 – $Nil) in the net loss of the Company. The Company does not actively manage this risk.

Interest Rate Risk

The Company is not exposed to significant interest rate risk.

(Expressed in Canadian Dollars)

9. Income Taxes

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2013	2012
Canadian combined statutory rates	25.25%	25.75%
Income taxes (recovery) at combined tax rates	$ (143,000)	$ (97,300)
Non-deductible and other items	60	26,600
Difference in foreign tax rates	25,000	-
Income tax rate changes	(32,260)	2,000
Deferred tax assets not recognized	150,200	68,700
Deferred income tax recovery	$ -	$ -

As June 30, 2013 and 2012, the amount of deductible temporary differences for which no deferred tax assets is recognized in the statements of financial position is as follows:

	2013		2012	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
Non-capital losses	$ 2,755,000	$ 689,000	$ 2,185,000	$ 546,000
Capital losses	607,000	158,000	607,000	152,000
Mineral properties and other assets	196,000	51,000	196,000	49,000
Share issuance costs	24,000	6,000	-	-
	$ 3,582,000	$ 904,000	$ 2,988,000	$ 747,000

The Company has non-capital losses for income tax purposes of approximately $2,505,000 (2012 -$2,185,000) which may be carried forward and offset against future taxable income. These losses expire from 2014 to 2032. The Company also has $250,000 in non-capital losses that can be carried forward indefinitely.

In assessing if deferred income tax assets are realizable, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax assets considered realizable could change materially in the near term based on future taxable income during the carry forward period.

10. Segmented Information

The Company operates in one industry segment, namely exploration of mineral resources in one geographic region, Brazil.

(Expressed in Canadian Dollars)

11. Employee Benefits

For the years ended June 30, 2013 and 2012, the Company incurred the following employee compensation:

		2013		2012
Salaries and benefits in exploration costs	$	30,306	$	-
Salaries and benefits in general and administration		121,226		124,346
	$	151,532	$	124,346

12. Subsequent Event

On September 19, 2013, the Company entered into a binding letter of intent to sell its interest in its wholly owned Brazilian subsidiary which holds the right to acquire 100% interest in the Marcionilio property in Brazil (See Note 4). In consideration, the Company will receive 2% net smelter royalty on any future production. This transaction is subject to shareholder and regulatory approval.