TOWER RESOURCES LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months ended April 30, 2014

(Expressed in Canadian Dollars - Unaudited)

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED 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 condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements have been prepared by and are the responsibility of management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

(Expressed in Canadian Dollars - Unaudited)

	April 30, 2014	October 31, 2013
	$	$
ASSETS		
Current		
Cash	1,086,377	852,899
Receivables (Note 3)	13,011	282,794
Prepaid expenses	18,771	14,577
	1,118,159	1,150,270
Property and equipment (Note 4)	16,850	16,204
Exploration and evaluation assets (Note 5)	4,030,454	3,591,656
Exploration and evaluation assets - oil and gas (Note 6)	1	1
Reclamation bonds (Note 7)	100,000	100,000
	5,265,464	**4,858,131**
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	51,494	228,652
Flow-through premium liability (Note 9)	-	52,849
	51,494	281,501
Rehabilitation obligation (Note 6)	13,000	13,000
	64,494	294,501
Shareholders' equity		
Share capital (Note 9)	12,915,962	12,160,901
Reserves (Note 9)	734,686	855,940
Deficit	(8,449,678)	(8,453,211)
	5,200,970	4,563,630
	5,265,464	**4,858,131**

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

Approved and authorized on behalf of the Board:

“Mark Vanry”
Mark Vanry, Director

“Steve Vanry”
Steve Vanry, Director

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

TOWER RESOURCES LTD.
CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars - Unaudited)

	For the three months ended April 30,		For the six months ended April 30,	
	2014	**2013**	**2014**	**2013**
	$	**$**		
Expenses				
Accounting and audit	6,134	12,180	8,634	15,680
Consulting fees	7,500	2,499	7,500	23,844
Depreciation	3,427	5,480	5,354	10,736
Legal fees	1,554	120	3,997	1,696
Management fees	22,500	22,500	30,000	45,000
Office and miscellaneous	49,376	71,975	97,046	113,386
Share-based compensation (Note 9)	13,095	40,911	33,557	128,117
Transfer agent and filing fees	6,989	6,091	8,892	8,609
Travel and promotion	4,996	1,570	5,684	11,230
Wages and salaries	2,545	2,865	7,815	10,667
	(118,116)	(166,191)	(208,479)	(368,965)
Net oil and gas gain (loss)	(118)	(341)	521	(341)
Interest income	1,606	7,988	3,831	14,235
Reversal of flow-through premium liability (Note 9)	-	14,962	52,849	20,004
	1,488	22,609	57,201	33,898
Loss and comprehensive loss for the period	**(116,628)**	**(143,582)**	**(151,278)**	**(335,067)**
Basic and diluted loss per share	**(0.00)**	**(0.00)**	**(0.00)**	**(0.01)**
Weighted average number of common shares outstanding	**38,709,993**	**33,411,960**	**36,157,203**	**32,324,755**

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

TOWER RESOURCES LTD.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars - Unaudited)

	For the six months ended April 30, 2014	2013
	$	$
Cash flows used in operating activities		
Loss for the period	(151,278)	(335,067)
Items not affecting cash		
Depreciation	5,354	10,736
Share-based compensation	33,557	128,117
Reversal of flow-through premium liability	(52,849)	(20,004)
Changes in non-cash working capital items		
Decrease in receivables	269,783	152,928
Increase in prepaid expenses	(4,194)	(9,861)
Decrease in accounts payable and accrued liabilities	(67,190)	(30,800)
	33,183	(103,951)
Cash flows used in investing activities		
Acquisition of equipment	(6,000)	(9,454)
Exploration and evaluation assets expenditures	(546,933)	(387,625)
	(552,933)	(397,079)
Cash flows from financing activities		
Proceeds from shares issued	750,000	1,760,440
Share issuance costs recovery (expense)	3,228	(195,028)
	753,228	1,565,412
Net change in cash	233,478	1,064,382
Cash, beginning of period	852,899	1,277,454
Cash, end of period	**1,086,377**	**2,341,836**
Non-cash transactions		
Shares issued for exploration and evaluation assets acquisition	8,375	44,250
Exploration and evaluation assets expenditures in accounts payable and accrued liabilities at period end	1,875	24,140
Share issuance costs in accounts payable and accrued liabilities at period end	6,542	-
Reclassification from reserves to deficit due to expiration of stock options	154,811	94,553

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

(Expressed in Canadian Dollars - Unaudited)

	Number of Shares Issued	Capital Stock	Reserves	Deficit	Total Shareholders' Equity
		$	$	$	$
Balance at October 31, 2012	27,756,933	10,960,603	698,449	(8,239,131)	3,419,921
Issuance of shares	5,501,375	1,375,343	-	-	1,375,343
Share issuance costs	-	(195,027)	-	-	(195,027)
Shares issued for exploration and evaluation assets acquisition	175,000	44,250	-	-	44,250
Agent's warrants issued for private placement	-	(54,268)	54,268	-	-
Stock options cancelled	-	-	(94,553)	94,553	-
Share-based compensation	-	-	128,117	-	128,117
Loss for the period	-	-	-	(335,067)	(335,067)
Balance at April 30, 2013	33,433,308	12,130,901	786,281	(8,479,645)	4,437,537
Shares issued for exploration and evaluation assets acquisition	200,000	30,000	-	-	30,000
Share-based compensation	-	-	69,659	-	69,659
Income for the period	-	-	-	26,434	26,434
Balance at October 31, 2013	**33,633,308**	**12,160,901**	**855,940**	**(8,453,211)**	**4,563,630**
Issuance of shares	15,000,000	750,000	-	-	750,000
Share issuance costs	-	(3,314)	-	-	(3,314)
Shares issued for exploration and evaluation assets acquisition	225,000	8,375	-	-	8,375
Stock options expired	-	-	(154,811)	154,811	-
Share-based compensation	-	-	33,557	-	33,557
Loss for the period	-	-	-	(151,278)	(151,278)
Balance at April 30, 2014	**48,858,308**	**12,915,962**	**734,686**	**(8,449,678)**	**5,200,970**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of operations

Tower Resources Ltd. ("the Company") is incorporated under the laws of British Columbia, Canada. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol TWR. The Company's head office, principal address and registered and records office is located at 530 – 510 Burrard Street, Vancouver, BC V6C 3A8.

Going concern

The Company's principal business activities include the acquisition and exploration of exploration and evaluation assets domiciled in Canada. The Company has not yet determined whether any of these exploration and evaluation assets contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing and/or to achieve profitable operations. These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The continuance of the Company's operations is dependent on obtaining sufficient additional financing in order to realize the recoverability of the Company's investments in exploration and evaluation assets, which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals. Management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur. Management estimates it has sufficient working capital to continue operations for the next twelve months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these condensed interim financial statements.

Statement of compliance

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB").

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited financial statements of the Company for the year ended October 31, 2013. The accounting policies applied in preparation of these condensed interim financial statements are consistent with those applied and disclosed in the Company's financial statements for the year ended October 31, 2013.

These condensed interim financial statements were authorized by the Board of Directors on June 30, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation

The condensed interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs, except for certain financial assets which are measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the valuation of share-based compensation and income taxes.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Economic recoverability and probability of future economic benefits of exploration and evaluation assets
Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Valuation of share-based compensation
The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income taxes
In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax 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.

(Expressed in Canadian Dollars - Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New or revised accounting standards not yet adopted

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the six months ended April 30, 2014 and have not been applied in preparing these condensed interim financial statements. The Company does not expect there to be any changes as a result of the new or revised standards which will be effective to the Company's financial statements for the year ending October 31, 2015 or later:

a. IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. It is tentatively effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

b. IAS 32 – Financial Instruments: Presentation amendment provides clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after January 1, 2014.

3. RECEIVABLES

	April 30, 2014	October 31, 2013
	$	$
Sales tax recoverable	9,616	45,857
BC mineral exploration tax credit	-	208,008
Interest receivable	1,989	11,301
Other receivable	1,406	17,628
	13,011	**282,794**

(Expressed in Canadian Dollars - Unaudited)

4. PROPERTY AND EQUIPMENT

	Computer hardware	Computer software	Equipment	Total
	$	$	$	$
Cost:				
At October 31, 2012	14,135	23,875	10,701	48,711
Additions	1,784	7,670	-	9,454
At October 31, 2013	15,919	31,545	10,701	58,165
Additions	-	6,000	-	6,000
At April 30, 2014	15,919	37,545	10,701	64,165
Depreciation:				
At October 31, 2012	7,480	11,938	1,071	20,489
Charge for the year	3,773	15,773	1,926	21,472
At October 31, 2013	11,253	27,711	2,997	41,961
Charge for the period	1,166	3,418	770	5,354
At April 30, 2014	12,419	31,129	3,767	47,315
Net book value:				
At October 31, 2012	6,655	11,937	9,630	28,222
At October 31, 2013	4,666	3,834	7,704	16,204
At April 30, 2014	**3,500**	**6,416**	**6,934**	**16,850**

(Expressed in Canadian Dollars - Unaudited)

5. EXPLORATION AND EVALUATION ASSETS

	JD	Baez	Waterloo	Rabbit North	Total
	$	$	$	$	$
Balance, October 31, 2012	**1,583,579**	**73,911**	**457,370**	**-**	**2,114,860**
Acquisition costs	91,031	856	-	40,000	131,887
Deferred costs					
Assays	62,662	560	6,455	1,921	71,598
Consulting services	23,398	28,767	9,059	-	61,224
Drilling	273,154	-	-	-	273,154
Equipment rental	6,239	860	830	4,449	12,378
Field supplies	69,703	27,012	1,609	10,276	108,600
Food	1,884	1,588	315	4,277	8,064
Geologist	267,837	101,699	23,780	178,259	571,575
Site development	65,427	-	3,184	-	68,611
Helicopter	59,018	-	-	236,280	295,298
Travel	29,927	1,854	403	827	33,011
Vehicle	14,680	18,085	3,540	12,586	48,891
Total costs incurred during the year	964,960	181,281	49,175	488,875	1,684,291
B.C. mineral exploration tax credit recoverable	(172,650)	(6,937)	(27,908)	-	(207,495)
Balance, October 31, 2013	**2,375,889**	**248,255**	**478,637**	**488,875**	**3,591,656**
Acquisition costs	48,375	-	768	23,677	72,820
Deferred costs					
Assays	-	-	-	5,030	5,030
Consulting services	2,500	-	-	128,241	130,741
Field supplies	3,099	-	-	534	3,633
Food (recovery)	(220)	-	-	282	62
Geologist	-	-	-	210,996	210,996
Site development	3,810	-	-	-	3,810
Travel (recovery)	(3,343)	-	-	306	(3,037)
Vehicle (recovery)	(524)	-	-	15,267	14,743
Total costs incurred during the period	53,697	-	768	384,333	438,798
Balance, April 30, 2014	**2,429,586**	**248,255**	**479,405**	**873,208**	**4,030,454**

(Expressed in Canadian Dollars - Unaudited)

5. EXPLORATION AND EVALUATION ASSETS (continued)

JD PROPERTY

On September 7, 2011 the Company entered into an option agreement to acquire the JD gold - silver property, comprised of certain mineral claims, located in the Omineca mining division of British Columbia. Under the terms of the option agreement, the Company may acquire a 100% interest in the property by making cash payments of $200,000, and issuing 1,200,000 common shares over a 5-year period, in addition to funding aggregate exploration expenditures of $5,000,000 over a total 60-month period as follows:

Date	*Cash Payments*	*Number of Shares*	*Work Commitment*
	$		**$**
September 26, 2011 *(issued)*	-	125,000	-
November 15, 2011 *(incurred)*	-	-	60,000
September 1, 2012 *(incurred)*	-	-	60,000
December 16, 2012 *(paid, issued, and incurred – Note 9)*	45,000	150,000	80,000
December 16, 2013 (*paid, issued and incurred – Note 9*)	40,000	200,000	500,000
December 16, 2014	50,000	250,000	1,000,000
December 16, 2015	65,000	475,000	1,500,000
December 16, 2016	-	-	1,800,000

The option agreement is subject to a 2% net smelter return royalty (“NSR”), 1% of which can be purchased by the Company for $3,000,000. The Company will be responsible to file the related cash-in-lieu or assessment work documentation with the Province of British Columbia. Once the Company has earned the 100% interest, it will pay an advance royalty of $40,000 per year until it commences commercial production.

On April 11, 2012, the Company entered into an option agreement to acquire a 100% interest in the Belle property located in the Omineca mining division of British Columbia adjoining the Company’s JD property. Under the terms of the option agreement, the Company may acquire a 100% interest in the property by making a cash payment of $14,000 and issuing 150,000 common shares of the Company as follows:

Date	*Cash Payments*	*Number of Shares*
	$	
April 23, 2012 *(paid and issued)*	14,000	25,000
April 23, 2013 *(issued – Note 9)*	-	25,000
April 23, 2014 *(issued – Note 9)*	-	25,000
April 23, 2015	-	25,000
April 23, 2016	-	50,000

The agreement is subject to a 2% NSR, of which 1% can be purchased by the Company for $2,000,000.

BAEZ PROPERTY

This property is located in British Columbia and was acquired for nominal staking costs.

(Expressed in Canadian Dollars - Unaudited)

5. EXPLORATION AND EVALUATION ASSETS (continued)

WATERLOO PROPERTY

On October 18, 2011, the Company entered into an option agreement to acquire the Waterloo property, comprised of certain mineral claims, located in the Osoyoos mining division of British Columbia. Under the terms of the option agreement, the Company may acquire a 75% interest in the property by making cash payments of $70,000 and issuing 400,000 common shares to the vendor, in addition to funding aggregate exploration expenditures of $2,000,000 over a total 42-month period as follows:

Date	*Cash Payments*	*Number of Shares*	*Work Commitment*
	$		**$**
December 23, 2011 *(paid and issued)*	45,000	400,000	-
December 23, 2012 *(paid and incurred)*	25,000	-	100,000
May 13, 2014	-	-	700,000
May 13, 2015	-	-	1,200,000

The option agreement is subject to a 2% NSR, of which 1% can be purchased by the Company for $3,000,000. Upon completing and delivering a Feasibility Study, the Company will be deemed to have exercised the second option and to have earned an additional 25% Interest (for an aggregate 100% interest).

Once the Company has earned the 100% interest, it will pay an advance royalty of $40,000 per year until it commences commercial production.

The Company is currently in discussion with the optionor to extend the work commitment of $700,000 that was due on May 13, 2014.

The Vice-President of Exploration of the Company has an interest in the vendor.

RABBIT NORTH PROPERTY

On July 11, 2013, the Company entered into an option agreement to acquire the Rabbit North property, comprised of certain mineral claims, located in the Kamloops mining division of British Columbia. The option agreement was approved by TSX-V on July 24, 2013. Under the terms of the option agreement, the Company may acquire a 100% interest in the property by making cash payments of $170,000 and issuing 1,000,000 common shares over 4-year period, in addition to funding aggregate exploration expenditures of $2,000,000 over a total 60-month period as follows:

Date	*Cash Payments*	*Number of Shares*	*Work Commitment*
	$		**$**
June 6, 2013 *(paid)*	5,000	-	-
August 7, 2013 *(paid and issued – Note 9)*	5,000	200,000	-
July 24, 2014	20,000	200,000	150,000
July 24, 2015	30,000	200,000	-
July 24, 2016	50,000	200,000	600,000
July 24, 2017	60,000	200,000	-
July 24, 2018	-	-	1,250,000

The option agreement is subject to a 3% NSR, of which 2% can be purchased by the Company for $3,500,000.

(Expressed in Canadian Dollars - Unaudited)

6. EXPLORATION AND EVALUATION ASSETS - OIL AND GAS

	April 30, 2014 and October 31, 2013 Acquisition Costs
Poplar Winstar Strachan	$ 1

POPLAR WINSTAR STRACHAN

On December 4, 2006, the Company entered into an agreement to participate in the Winstar Strachan 8-10-38-10 W5M well in the West Central area of Alberta. The Company paid $300,000 to earn an equalization interest of approximately 1.2367 %. During the year ended October 31, 2009, management of the Company wrote down the value of the property to the estimated recoverable amount of $1.

Rehabilitation obligations of $13,000 have been recorded based on the Company's proportionate share of obligations estimated by the operators of the properties. The estimated values of the obligations have not been discounted as they are immaterial and an estimate of the timing of the future cash flows is not determinable.

7. RECLAMATION BONDS

In relation to the JD, Waterloo, Baez and Rabbit North properties, the Company has posted reclamation bonds totalling $100,000 (October 31, 2013 - $100,000).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 30, 2014	**October 31, 2013**
	$	**$**
Accounts payable	32,643	140,527
Accrued liabilities	5,000	38,000
Due to related parties (Note 10)	13,851	50,125
	51,494	**228,652**

9. SHARE CAPITAL AND RESERVES

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

In December 2012, the Company issued 150,000 common shares valued at $40,500 pursuant to the JD property option agreement (Note 5).

In December 2012, the Company completed a private placement of 5,501,375 flow-through units at a price of $0.32 per unit for gross proceeds of $1,760,440. Each unit is comprised of one flow-through common share and one-half of one common share purchase warrant which entitles the holder to purchase one additional common share of the Company for $0.40 up to December 6, 2014. The flow-through units had an associated flow-through premium liability of $385,097 on issuance of which $nil remains as at April 30, 2014 (October 31, 2013 - $52,849). The Company incurred commissions and expenses of $195,028 related to this financing. In connection with this private placement, the Company issued 342,825 agent warrants which were valued at $54,268 using the Black-Scholes option pricing model.

(Expressed in Canadian Dollars - Unaudited)

9. SHARE CAPITAL AND RESERVES (continued)

In April 2013, the Company issued 25,000 common shares valued at $3,750 pursuant to the Belle property option agreement (Note 5).

In July 2013, the Company issued 200,000 common shares valued at $30,000 pursuant to the Rabbit North property option agreement (Note 5).

In January 2014, the Company issued 200,000 common shares valued at $6,000 pursuant to the JD property option agreement (Note 5).

In April 2014, the Company issued 25,000 common shares valued at $2,375 pursuant to the Belle property option agreement (Note 5).

In April 2014, the Company completed a non-brokered private placement of 15,000,000 units at a price of $0.05 per unit for net proceeds of $746,686, net of share issue costs of $3,314. Each unit is comprised of one common share and one-half share purchase warrant with each whole warrant entitling the holder to purchase one additional common share of the Company for $0.10 per share up to April 1, 2016. Upon completion of a four month hold period, the Company may accelerate the expiry date of the warrants within 30 days if the common shares of the Company close at over $0.20 for 10 consecutive trading days and give notice of the same in writing to the holder of the warrants.

Stock options

On November 19, 2010, the Company adopted an incentive stock option plan (the “Plan”). The Plan provides that the aggregate number of shares of the Company’s capital stock issuable pursuant to options granted under the Plan may not exceed ten percent of the issued and outstanding common shares of the Company at the time an option is granted. Options granted under the Plan will have a maximum term of five years. The exercise price of options granted under the Plan shall be set by the Board of Directors on the effective date of the option and will not be less than the Discounted Market Price as defined by the TSX-V. Vesting of the options shall be at the discretion of the Board of Directors.

During the six months ended April 30, 2014, the Company granted 425,000 (April 30, 2013 – 450,000) incentive stock options with a fair value of $14,275 (April 30, 2013 - $56,384) using the Black-Scholes option pricing model. The Company recorded $33,557 (April 30, 2013 - $128,117) of share-based compensation which was the value of stock options vested during the period.

During the six months ended April 30, 2014, 456,250 (April 30, 2013 – 300,000) incentive stock options expired or were cancelled, and accordingly $154,811 (April 30, 2013 - $94,553) was reversed from reserves to deficit.

The fair value of options granted is estimated on the grant date using the Black-Scholes option pricing model using the following variables:

	For the six months ended April 30,	
	2014	**2013**
Risk-free interest rate	**1.97%**	1.24%
Expected option life in years	**5 years**	5 years
Expected stock price volatility	**188%**	186%
Expected forfeiture rate	**0%**	0%

(Expressed in Canadian Dollars - Unaudited)

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

A summary of stock options activities are as follows:

	Number of options	Weighted average exercise price
		$
Outstanding at October 31, 2012	2,743,750	0.35
Granted	450,000	0.13
Cancelled	(300,000)	0.35
Outstanding at October 31, 2013	2,893,750	0.32
Granted	425,000	0.05
Expired	(456,250)	0.40
Outstanding at April 30, 2014	2,862,500	0.26

The Company has outstanding options entitling the holder to purchase an aggregate of common shares at April 30, 2014 as follows:

Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
$			
0.40	187,500	187,500	August 12, 2014
0.35	1,000,000	1,000,000	September 29, 2016
0.35	100,000	100,000	December 9, 2016
0.45	50,000	50,000	April 5, 2017
0.30	250,000	250,000	May 24, 2017
0.30	400,000	350,000	October 25, 2017
0.13	450,000	281,250	April 9, 2018
0.05	425,000	106,250	December 17, 2018
	2,862,500	2,325,000	

Warrants

In conjunction with the December 2012 financing, the Company issued 2,750,687 warrants related to the flow-through units exercisable into one common share of the Company at a price of $0.40 for a period of 24 months. The Company also issued 342,825 agent's warrants exercisable at $0.32 per share for a period of two years. The agent's warrants were valued at $54,268 calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk free rate of 1.12%, a forfeiture rate of nil, and volatility of 138%.

In conjunction with the April 2014 financing, the Company issued 7,500,000 warrants which are exercisable into one common share of the Company at a price of $0.10 for a period of 24 months.

(Expressed in Canadian Dollars - Unaudited)

9. SHARE CAPITAL AND RESERVES (continued)

Warrants (continued)

A summary of share purchase warrant activities are as follows:

	Number of warrants	Weighted average exercise price
		$
Outstanding and exercisable at October 31, 2012	11,700,000	0.40
Issued	3,093,512	0.39
Outstanding and exercisable at October 31, 2013	14,793,512	0.40
Issued	7,500,000	0.10
Outstanding and exercisable at April 30, 2014	22,293,512	0.30

The Company has outstanding warrants entitling the holders to purchase an aggregate of common shares at April 30, 2014 as follows:

Exercise Price	Number Outstanding	Expiry Date
$		
0.40	4,200,000	December 1, 2014
0.40	2,750,687	December 6, 2014
0.32	342,825*	December 6, 2014
0.40	7,500,000	November 2, 2015
0.10	7,500,000	**April 1, 2016
	22,293,512	

*Agents warrants
** The Company may accelerate the expiry date of these warrants within 30 days if the common shares of the Company close at over $0.20 for 10 consecutive trading days and give notice of the same in writing to the holder of the warrants.

10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the six months ended April 30, 2014:

a) “Office and miscellaneous” includes rent of $39,742 (2013 - $38,828) and other office expenses of $1,772 (2013 - $2,063) paid or accrued to a company related by common directors and officers.

Summary of key management personnel compensation (includes officers and directors of the Company):

	For the six months ended April 30, 2014	2013
	$	$
Management fees	30,000	45,000
Office and miscellaneous	15,000	15,000
Consulting fees	7,500	20,000
Exploration and evaluation assets expenditures	67,500	40,000
Share-based compensation	19,542	82,891
	139,542	**202,891**

10. RELATED PARTY TRANSACTIONS (continued)

Amounts owing to related parties (including key management personnel) included in accounts payable and accrued liabilities total $13,851 (October 31, 2013 - $50,125)

11. SEGMENTED INFORMATION

The Company has one geographic segment, being Canada, and one operating segment, being the acquisition and exploration of exploration and evaluation assets.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments consist of cash, receivables, reclamation bonds, and accounts payable and accrued liabilities. The fair value of these financial instruments, other than cash, approximates their carrying values. Cash is measured at fair value using level 1 inputs.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and price risk.

Credit risk

The Company is exposed to industry credit risks arising from its cash holdings and receivables. The Company manages credit risk by placing cash with major Canadian financial institutions. The Company's receivables primarily consist of sales tax recoverable due from the Federal Government of Canada. Management believes that credit risk related to these amounts is nominal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. To manage liquidity risk, the Company reviews additional sources of capital and financing to continue its operations and discharge its commitments as they become due.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As of April 30, 2014, the Company held demand deposits with a face value $485,000. A change in interest rates of 1% will change income by $4,850 per annum.

Foreign currency risk

The Company is not significantly exposed to foreign currency risk on fluctuations related to items that are denominated in a foreign currency. Management believes the risk is not currently significant.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Price risk

The Company has limited exposure to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities.

13. CAPITAL MANAGEMENT

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 and exploration of exploration and evaluation assets. 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 Company defines capital that it manages as share capital, options and warrants.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. 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.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions.