Pacific Ridge Exploration Ltd.

(An Exploration Stage Company)

Financial Statements

December 31, 2013 and 2012

Management's Responsibility for Financial Reporting

The preparation and presentation of the accompanying financial statements are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee which is independent from management.

The Audit Committee is appointed by the Board of Directors and has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

"*John S. Brock*" *(signed)*
John S. Brock
President and Chief Executive Officer

"*Lei Wang*" *(signed)*
Lei Wang
Chief Financial Officer

February 13, 2014

February 13, 2014

Independent Auditor's Report

To the Shareholders of Pacific Ridge Exploration Ltd.

We have audited the accompanying financial statements of Pacific Ridge Exploration Ltd., which comprise the statements of financial position as at December 31, 2013 and December 31, 2012 and the statements of comprehensive income (loss), cash flows and changes in shareholders' equity for the years then ended, and the related notes, which comprise 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pacific Ridge Exploration Ltd. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: 604 806 7000, F: 604 806 7806, www.pwc.com/ca

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Financial Position
(Expressed in Canadian dollars)

			December 31, 2013		December 31, 2012
Assets					
Current assets					
Cash and cash equivalents		$	151,606	$	594,210
HST receivables			-		19,384
Marketable security	Note 5(e)		126,000		-
Prepaid			2,000		15,000
			279,606		628,594
Equipment	Note 4		18,922		27,034
Resource properties	Note 5		833,567		1,104,212
		$	1,132,095	$	1,759,840
Liabilities					
Current liabilities					
Trade payable and accrued liabilities		$	30,379	$	129,926
Shareholders' Equity					
Share capital	Note 6		42,963,593		42,667,978
Contributed surplus			3,073,379		2,981,590
Accumulated other comprehensive loss			(6,000)		-
Deficit			(44,929,256)		(44,019,654)
			1,101,716		1,629,914
		$	1,132,095	$	1,759,840

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

Nature of operations and going concern – Note 1

Approved by the Board of Directors and authorized for issue on February 6, 2014

"John S. Brock" (signed)
John S. Brock

"Douglas Proctor"(signed)
Douglas Proctor

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Comprehensive Income (Loss)
(Expressed in Canadian dollars)

			Year ended December 31, 2013		2012
Administration expenses					
Depreciation		$	8,112	$	11,586
Insurance			13,630		26,152
Professional fees			68,180		75,498
Management and administrative services			124,090		150,073
Office operations and facilities			96,631		110,904
Shareholder communications and investor relations			50,251		151,434
Share-based payments			38,461		112,727
Transfer agent and regulatory fees			38,599		29,177
			437,954		667,551
Other expenses (income)					
Exploration and evaluation costs	Note 5(g)		282,954		1,973,891
Gain on sale of property	Note 5(e)		(181,324)		-
Recognition of flow through share premium	Note 6(a)		(24,550)		-
Impairments	Notes 5(a)(f)		468,500		-
Interest			(3,932)		(22,202)
Government grant			(70,000)		-
			471,648		1,951,689
Net loss for the year			(909,602)		(2,619,240)
Other comprehensive loss for the year					
Net change in fair value of available-for-sale financial asset			(6,000)		-
Comprehensive loss for the year			(915,602)		(2,619,240)
Basic and diluted loss and comprehensive loss per common share		$	(0.05)	$	(0.19)
Weighted average number of common shares outstanding			17,219,597		14,062,467

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

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2013	2012
Operating activities		
Loss for the year	$ (909,602)	$ (2,619,240)
Items not affecting cash		
Depreciation	8,112	11,586
Gain on sale of property	(181,324)	-
Reversal of flow-through share premium	(24,550)	-
Impairments	468,500	-
Share-based payments	38,461	112,727
	(600,403)	(2,494,927)
Changes in non-cash working capital items		
Other receivables	19,384	14,989
Prepaid	13,000	-
Trade payable and accrued liabilities	(99,547)	(55,285)
	(67,163)	(40,296)
	(667,566)	(2,535,223)
Investing activities		
Resource property acquisition costs	(158,855)	(108,480)
Proceeds on sale of property	49,324	-
	(109,531)	(108,480)
Financing activities		
Proceeds from share issuance, net of share issue costs	334,493	-
Decrease in cash and cash equivalents	(442,604)	(2,643,703)
Cash and cash equivalents - beginning of year	594,210	3,237,913
Cash and cash equivalents - end of year	$ 151,606	$ 594,210
Cash and cash equivalents comprises		
Cash and cash equivalents comprises	$ 41,920	$ 36,720
Term deposits cashable at any time	109,686	557,490
	$ 151,606	$ 594,210

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

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Common Shares										
	Shares		Amount		Contributed Surplus		Accumulated other Comprehensive Loss		Deficit		Total Shareholders' Equity
Balance at December 31, 2011	14,022,987	$	42,620,478	$	2,868,863	$	-	$	(41,400,414)	$	4,088,927
Shares issued for property	140,000		47,500								47,500
Share-based payments					112,727						112,727
Net loss for the year									(2,619,240)		(2,619,240)
Balance at December 31, 2012	14,162,987		42,667,978		2,981,590		-		(44,019,654)		1,629,914
Equity offering, net of issuance costs	6,058,000		281,165		53,328						334,493
Value attributed to flow-through share	-		(24,550)								(24,550)
Adjustment for fractional rounding in share consolidation	(103)										-
Shares issued for property	580,000		39,000								39,000
Share-based payments					38,461						38,461
Other comprehensive loss for the year							(6,000)				(6,000)
Net loss for the year									(909,602)		(909,602)
Balance at December 31, 2013	20,800,884	$	42,963,593	$	3,073,379	$	(6,000)	$	(44,929,256)	$	1,101,716

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

1. Nature of operations and going concern

Pacific Ridge Exploration Ltd. (the "Company" or "Pacific Ridge") is in the business of acquiring and exploring resource properties in Canada. Pacific Ridge is incorporated and domiciled in Canada under the *Business Corporations Act* (British Columbia). The address of its registered office is 1710 – 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2L3.

During the year ended December 31, 2013, the Company consolidated its share capital, stock options and share purchase warrants on a five to one basis. These financial statements reflect the retroactive application of the share consolidation.

The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary capital to finance the operations and contribution from future joint venture partners.

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharges its liabilities in the normal course of business. As at December 31, 2013, the Company had an accumulated deficit of $44,929,256 (2012 - $44,019,654) and working capital of $249,227 (2012 - $498,668). Completion of the acquisition, exploration and development of the Company's resource properties is dependent on the ability to obtain the necessary on going financing.

The Company intends to fund its plan of operations from existing working capital and the proceeds of future financings, but lacks sufficient committed funding for the next 12 months. Future financings are expected to be obtained through joint ventures, equity financing, and/or other means. While the Company has been successful in raising sufficient funding in the past, there can be no assurance it will be able to do so in the future. These conditions give rise to a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern and, therefore, its ability to realize its assets and discharge its liabilities in the normal course of business.

These financial statements do not reflect the adjustments to the carrying value of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. Such adjustments could be material.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Except for available for sale investments, which are recorded at fair value, these financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, the Company's functional currency.

The financial statements were approved by the Board of Directors on February 6, 2014.

2. Summary of significant accounting polices (Cont'd)

The summary of significant accounting policies used in the preparation of these financial statements is described below:

a) Foreign currency translation

The presentation currency and the functional currency of the Company is the Canadian dollar ("$"). The Company's foreign currency transactions are translated into the Canadian dollar at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities are translated using period end exchange rates with any gains and losses included in the determination of operating results.

b) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and highly-liquid investments that are readily convertible to known amounts of cash with no penalties and have initial maturities of three months or less. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

c) Equipment

Equipment is recorded at cost less accumulated amortization and impairment. Depreciation is provided on a declining balance basis at the annual rate of 30% for all equipment.

d) Resource property acquisition costs

Resource properties consist of payments to acquire exploration and mining claims and property option payments. Acquisition costs are capitalized and deferred until such a time as the property is put into production or the property is disposed of either through sale or abandonment, or the property becomes impaired. If a property is put into production the costs of the acquisition will be amortized over the life of the property on a unit-of-production basis based on the estimated proven and probable reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in the operations for the year. If a property is abandoned or has become impaired, the acquisition costs will be written off or written down to operations.

Recorded costs of resource properties are not intended to reflect present or future values of the properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.

e) Exploration and evaluation costs

Exploration and evaluation expenditures are expensed as incurred, until the property reaches the development stage. The development stage is considered to begin once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable. All direct costs related to the acquisition of resource property interests are capitalized. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

2. Summary of significant accounting polices (Cont'd)

f) Government grants

Government grants are assistance in cash based on eligible mineral exploration expenditures incurred. Government grants received are recorded in profit and loss in the same period as the relevant exploration expenditures.

g) Flow-through shares

The Company finances a significant portion of its exploration activities through financings in which flow-through common shares are issued. These shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance of flow-through shares, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. Upon qualifying expenditures being incurred, the premium liability is de-recognized to other income.

h) Share-based payments

The Company has a stock option plan that is described in note 6. Share-based payments to employees are measured at the fair value of the instruments issued and are amortized over the vesting periods using a graded attribution approach. Share-based payments to non-employees are measured at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of the goods or services cannot be reliably measured), and are recorded at the date the goods or services are received. If and when the stock options or warrants are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

i) Income taxes

Deferred income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax assets or liabilities are calculated using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be settled or realized. Deferred tax assets are recognized only to the extent that it is probable that they will be realized.

j) Earnings/(loss) per common share

Basic earnings (loss) per share are computed by dividing income (or loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period.

The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The effect of potential issuances of shares from the exercise of outstanding options and warrants would be anti-dilutive for the periods presented and accordingly, basic and diluted loss per share are the same.

2. Summary of significant accounting polices (Cont'd)

k) Financial instruments

Financial instruments are classified as one of the following: fair value through profit and loss, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss accordingly.

l) Impairment

Non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

m) Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Resource properties: The carrying value of the Company's mineral properties are reviewed by management quarterly, or whenever events or circumstances indicate that its carrying amount may not be recovered. Management considers potential impairment indicators including, but not limited to, changes in commodity prices, plans for the properties and the results of exploration to date.

(Expressed in Canadian dollars)

3. Future accounting changes

IFRS 9, *Financial Instruments,* addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements, except that fair value changes due to credit risk for liabilities designated as FVTPL would generally be recorded in other comprehensive income.

In November 2013, the IASB amended IFRS 9 to remove the mandatory effective date of January 1, 2015. A new effective date will be announced when ongoing work on the standard is closer to completion.

4. Equipment

Equipment is carried at cost less accumulated depreciation with details listed below:

		Cost		Accumulated depreciation		Carrying value
Balance, December 31, 2011	$	89,991	$	(51,371)	$	38,620
Additions		-		(11,586)		(11,586)
Balance, December 31, 2012		89,991		(62,957)		27,034
Additions		-		(8,112)		(8,112)
Balance, December 31, 2013	$	89,991	$	(71,069)	$	18,922

(Expressed in Canadian dollars)

5. Resource properties

The Company has interests in mineral properties in Yukon, Canada. A summary of capitalized acquisition costs is as follows:

	Mariposa	Gold Cap	Polar Stewart	Eureka Dome	Fyre Lake Straw	King Solomon	Sophie Property	Total
Balance, December 31, 2011	$ 496,561	$ 10,300	$ 347,500	$ 41,790	$ 52,081	$ -	$ -	$ 948,232
Additions during the year	70,000	-	67,500	-	18,480	-	-	155,980
Balance, December 31, 2012	566,561	10,300	415,000	41,790	70,561	-	-	1,104,212
Additions during the year	31,378	-	-	-	22,530	123,212	20,735	197,855
Impairments	(53,500)	-	(415,000)	-	-	-	-	(468,500)
Balance, December 31, 2013	$ 544,439	$ 10,300	$ -	$ 41,790	$ 93,091	$ 123,212	$ 20,735	$ 833,567

a) Mariposa property, Yukon

In October 2009, the Company entered into an option agreement to acquire a 100% interest in 203 claims, located in Dawson Mining District, Yukon, known as the Mariposa property. The principal terms of the option agreement require the Company to pay $120,000 ($100,000 paid) in cash, issue 800,000 (310,000 issued) common shares and incur $600,000 (incurred) exploration expenditures over five years as below:

	Cash	Common Shares	Cumulative work expenditures
On initial date (paid and issued)	$ 20,000	50,000	$ 100,000
On or before October 1, 2010 (paid and issued)	20,000	40,000	200,000
On or before October 1, 2011 (paid and issued)	20,000	60,000	300,000
On or before October 1, 2012 (paid and issued)	20,000	80,000	400,000
On or before October 1, 2013 (paid and issued)	20,000	80,000	600,000
On or before October 1, 2014	20,000	90,000	-
Upon production notice being given	-	200,000	-
Upon commencement of commercial production	-	200,000	-
	$ 120,000	800,000	$ 600,000

The property is subject to a 2% net smelter return ("NSR") that may be purchased, at any time after a production notice has been given in amounts of $1,000,000 for each 1% of NSR.

On May 27, 2011, the Company entered into an option agreement with a private vendor to earn a 100% interest in 39 mineral claims located in the Dawson Mining District, Yukon, north-western area of the Mariposa property, known as the PTL property for a total consideration of $85,000 and 40,000 of common shares over four years.

The results of exploration of the PTL property did not meet the Company's expectations, thus during the year ended December 31, 2013 the Company terminated the PTL option agreement and wrote off the $53,500 acquisition cost.

(Expressed in Canadian dollars)

5. Resource properties (continued)

b) King Solomon property, Yukon

On May 8, 2013, the Company entered into an option agreement with Shawn Ryan and Wildwood Exploration Inc. ("Wildwood") to acquire a 100% interest in 331 mineral claims located in the Klondike Gold District, Yukon Territory, known as the King Solomon property. To earn a 100% interest, the Company is required to make $500,000 ($100,000 paid) in cash payments, issue 2,000,000 (250,000 issued) common shares in annual tranches of 250,000 on or before May 15th of each year and incur cumulative exploration expenditures of $2,500,000 ($145,932 incurred) over four years starting in 2013 as below:

		Cash	Common Shares		Cumulative expenditures
On initial date (paid and issued)	$	50,000	250,000	$	-
On or before July 15, 2013 (paid)		50,000	-		-
On or before December 31, 2013		-	-		200,000
2014		100,000	250,000		500,000
2015		100,000	250,000		1,000,000
2016		100,000	250,000		1,750,000
2017		100,000	500,000		2,500,000
	$	500,000	1,500,000	$	2,500,000

Due to limited funds, the Company did not meet the original agreement's work commitment of $200,000 by December 31, 2013. In December 2013, the Company reached an agreement to amend the work commitment to $145,000 by December 31, 2013. The Company has met this commitment.

The property is subject to a 2% NSR of which 1% can be bought at $2 million at any time.

c) Sophie property, Yukon

On July 10, 2013, the Company announced an option agreement with 39242 Yukon Inc. to acquire the Sophie mineral property adjacent to the King Solomon property. To earn a 100% interest, the Company is required to make $100,000 in cash payments ($10,000 paid) and issue 1,000,000 (200,000 issued) common shares over four years as below:

		Cash	Common Shares
On initial date (paid and issued)	$	5,000	100,000
On or before December 1, 2013 (paid and issued)		5,000	100,000
On or before December 1, 2014		10,000	100,000
On or before December 1, 2015		15,000	200,000
On or before December 1, 2016		25,000	200,000
On or before December 1, 2017		40,000	300,000
	$	100,000	1,000,000

The property is subject to a 2.5% NSR half of which can be purchased for $750,000.

5. Resource properties (continued)

d) Fyre Lake Massive Sulphide property, Yukon

The Company owns a 100% interest in the Fyre Lake property which was acquired by claim staking.

The Company entered into an option agreement with True North Gems Inc. ("True North") to acquire 43 mineral claims located within Fyre Lake property in the Watson Lake Mining Division, Yukon, known as the Straw property. In order to earn a 100% interest in the property, the Company is required to pay an aggregate amount of $25,000 (paid) and issue 80,000 (issued) common shares of the Company by January 31, 2014.

As of January 31, 2014, the option agreement has been complete and the Company has earned the 100% interest of the property.

e) Sale of Baker Basin uranium property, Nunavut

The Company owned a 100% interest in the Baker Basin Uranium Project subject to an underlying agreement with Kivalliq Energy ("Kivalliq") wherein Kivalliq had the option to back-in to a 20% working interest when a prefeasibility study was produced.

On November 1, 2013, the Company closed the sale of the property to Kivalliq for consideration composed of:

i) 600,000 common shares of Kivalliq; and

ii) $55,000 cash payment.

Kivalliq also agreed to participate in a $70,000 private placement subscription to 1,400,000 units at a price of $0.05. Each unit consists of one common share of Pacific Ridge and a one-half share purchase warrant exercisable at $0.10 by November 1, 2014.

During the year ended December 31, 2011, the Baker Basin property was written down to $nil, thus the Company recorded a net gain of $181,324 after $5,676 of legal fees associated with the sale.

f) Polar Stewart property, Yukon

In July 2009, the Company entered into an option agreement, amended in October 2012, with Ryanwood Exploration Inc. ("Ryanwood") to acquire a 100% interest in 149 mineral claims located in Dawson City, Yukon, known as the Polar Stewart property. In consideration the Company was to pay $300,000 ($250,000 paid), issue 250,000 (issued) common shares and undertake exploration expenditures totalling $1,000,000 by December 31, 2016.

No major exploration activities have been carried out on this property due to the Company's limited cash resources and prevailing market conditions, thus the $415,000 capitalized acquisition cost was written off to nil during the year ended December 31, 2013.

(Expressed in Canadian dollars)

5. Resource properties (continued)

g) The tables below summarize the cumulative balance and exploration costs for the year ended December 31, 2013 and 2012:

	Mariposa	Other Properties	General Exploration	Total
Balance, December 31, 2011	$ 4,586,752	$ 542,743	$ 191,106	$ 5,320,601
Additions during the year				
Analytical and data report	162,481	5,520	2,348	170,349
Drilling	371,019			371,019
Field support	117,187	754		117,941
Fuel and transport	437,052			437,052
Geological services	212,145	2,617		214,762
Personnel	457,335	3,955	8,454	469,744
Travel and other	145,407	7,747	39,870	193,024
	1,902,626	20,593	50,672	1,973,891
Balance, December 31, 2012	6,489,378	563,336	241,778	7,294,492
Additions during the year				
Analytical and data report	2,854	32,552		35,406
Field support	6,876	25,321		32,197
Fuel and transport	21,411	2,179		23,590
Geological services	84,178	43,484		127,662
Personnel	77,207	64,980		142,187
Travel and other	4,684	7,372	4,313	16,369
Recovery and other	(30,425)		(64,032)	(94,457)
	166,785	175,888	(59,719)	282,954
Balance, December 31, 2013	$ 6,656,163	$ 739,224	$ 182,059	$ 7,577,446

6. Share capital

a) Common Share

Authorized - unlimited common shares without par value.

On November 1, 2013, 1,400,000 units consisting of one common share and one-half share purchase warrant were issued to Kivalliq at a price of $0.05. Please see Note 5(e).

On June 10, 2013, July 3 and August 29, 2013, the Company closed a private placement in tranches for total gross proceed of $282,000. The Company issued 2,455,000 flow-through shares at a price of $0.07 per share and 2,203,000 non-flow-through units at a price of $0.05 per unit. Each non-flow-through unit consisted of one common share and one-half of a transferable share purchase warrant exercisable at $0.10 per share for a one year period subject to an acceleration provision.

The difference between the flow-through share price and the market price of $24,550 is recognized as the flow-through share premium and transferred to income when the flow-through funds are fully spent.

(Expressed in Canadian dollars)

6. Share capital (Cont'd)

a) Common Share (Cont'd)

The Company paid $4,341 finders' fee and issued 42,000 agent warrants which have the same term and condition as the warrants above.

The fair value of the warrants issued during the year was calculated using the Black-Scholes pricing with the following assumptions:

	December 31, 2013	December 31, 2012
Annual volatility	236%	N/A
Risk-free rate	1.13%	N/A
Expected life	1 year	N/A
Annual dividends	0%	N/A

Effective April 30, 2013, the Company's common shares have been traded on a consolidated basis of 5:1 under the same symbol of PEX. All the share capital information contained in these financial statements has been presented on a post-consolidated basis.

b) Share Purchase Warrants

A summary of the warrants outstanding as of years ended December 31 is as follows:

	December 31, 2013			December 31, 2012		
	Number of Warrants		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price
Outstanding, beginning of year	-	$	-	91,249	$	0.70
Issued	1,843,500	$	0.10	-	$	-
Expired	-	$	-	(91,249)	$	(0.70)
Outstanding, end of year	1,843,500	$	0.10	-	$	-

On December 31, 2013, the warrants outstanding were listed below:

Expiry date		Exercise price	Warrants outstanding
June 10, 2014	$	0.10	1,033,500
July 3, 2014		0.10	100,000
August 29, 2014		0.10	10,000
November 1, 2014		0.10	700,000
			1,843,500

(Expressed in Canadian dollars)

6. Share capital (Cont'd)

c) Stock Options

The Company has a stock option plan in place authorizing the granting of stock options to qualified optionees to purchase a total of up to 10% of the then issued and outstanding common shares of the Company. Stock options generally are granted for a maximum term of five years and expire 90 days following the termination of the optionee's agreement. The exercise price for the options is set at the closing market price of the common shares on the grant date. The vesting periods of options vary with terms determined by the board of directors. Stock option transactions and the number of stock options outstanding are summarized below:

	December 31, 2013		December 31, 2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	722,000	$ 0.95	522,000	$ 1.35
Granted	1,142,000	$ 0.05	411,000	$ 0.50
Expired	(30,000)	$ 0.50	(211,000)	$ 1.15
Outstanding, end of year	1,834,000	$ 0.40	722,000	$ 0.95
Exercisable, end of year	1,834,000	$ 0.40	576,500	$ 1.05

As of December 31, 2013, the weighted average remaining life for stock option outstanding was 4.00 years (December 31, 2012 – 3.43 years) and exercisable 4.00 years (December 31, 2012 – 3.09 years).

Stock options outstanding and exercisable at the end of the year have the following expiry date and exercise prices:

		December 31, 2013		December 31, 2012	
Expiry date	Exercise price	Options Outstanding	Options Exercisable	Options Outstanding	Options Exercisable
January 29, 2015	$ 1.00	262,000	262,000	262,000	262,000
January 6, 2016	1.50	80,000	80,000	80,000	80,000
May 12, 2016	1.50	9,000	9,000	9,000	9,000
July 29, 2016	3.05	40,000	40,000	40,000	40,000
May 24, 2017	0.50	201,000	201,000	231,000	135,500
December 5, 2017	0.50	100,000	100,000	100,000	50,000
December 24, 2018	0.05	1,142,000	1,142,000	-	-
		1,834,000	1,834,000	722,000	576,500

The Company applies the fair value method of accounting for stock options. Option pricing models require the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(Expressed in Canadian dollars)

6. Share capital (Cont'd)

c) Stock Options (Cont'd)

The fair value of options granted was estimated at the grant date based on the Black-Scholes option-pricing model, using the following assumptions:

	December 31, 2013	December 31, 2012
Risk-free interest rate	1.09%	1.21%
Expected share price volatility	138.28%	105.83%
Expected option life in years	5.0	3.5
Expected dividend yield	Nil	Nil

7. Government grant

The Company received $70,000 (2012 - $nil) from Yukon Government for expenditures made on its Mariposa and King Solomon properties in Yukon, Canada.

8. Related parties

Related parties include the board of directors and officers, close family members and enterprises that are controlled by these individuals as well as certain consultants performing similar functions.

The Company has no compensation arrangements with its board of directors other than non-cash stock option grants. The Company has no termination benefits, post-employment benefits and other long-term benefits in place. Key management includes the board of directors and executive officers. Compensation awarded to key management is listed below:

	Year ended December 31,	
	2013	2012
Salary	$ 168,175	$ 243,333
Share-based payments, non-cash	38,461	72,338
	$ 206,636	$ 315,671

9. Capital management

The Company's objective in managing its capital is to maintain the ability to continue as a going concern and to continue to explore on various properties for the benefits of its stakeholders. The Company's operations have been and will continue to be funded by the sale of equity to investors.

The Company's capital includes the components of shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral property interests and associated administration expenses. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals.

9. Capital management (Cont'd)

Please refer to note 1 for further information.

The Company monitors actual expenses to budget on all exploration projects and overheads to manage costs, commitments and exploration activities.

There were no changes in the Company's approach to capital management during the year ended December 31, 2013.

10. Financial instruments

The Company has classified cash and cash equivalents and other receivables as loans and receivables; accounts payable and accrued liabilities are classified as other financial liabilities.

Fair values

As at December 31, 2013, the recorded amounts for cash and cash equivalents and other receivables approximate their fair values due to their short-term nature. The lack of sufficient funding for the next 12 months lends significant doubt as to the Company's ability to meet its commitments as they become due. Accordingly, the fair value of accounts payable and accrued liabilities may be lower than the amounts recorded in the financial statements. Please refer to Note 1 for further information.

The fair value of the Company's marketable security is determined by reference to the closing share price on active market prices at the reporting date.

Interest rate risk

The Company's cash held in financial institutions earns interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a material impact on the expected cash flows.

Credit risk

The Company has its cash and cash equivalents deposited with a large, federally insured, commercial financial institutions. The balance of the receivables is not significant.

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 by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. At December 31, 2013, the Company had cash and cash equivalents of $151,606 (2012- $594,210).

Please refer to Note 1 for further information.

(Expressed in Canadian dollars)

11. Segmented information

The Company has one business segment, the exploration of mineral properties. All of the Company's assets and operations are located in Canada.

12. Income taxes

Reconciliation between the Company's income tax provision computed at statutory rates to the reported income tax (recovery) expense for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Statutory tax rate	26.0%	25.0%
Comprehensive loss for the year	$ (915,602)	$ (2,619,240)
Expected income tax recovery	(238,057)	(654,810)
Change in statutory tax rate	258,708	-
Non-deductible expenses	25,813	389,353
Change in unrecognized deferred income tax assets	(46,465)	265,457
Income tax (recovery) expense	$ -	$ -

A potential deferred income asset of approximately $6,890,398 arises from the following:

	December 31, 2013	December 31, 2012
Non-capital loss carry-forwards	$ 212,585	$ 253,314
Equipment and investments	177,988	175,099
Mineral property	6,427,283	6,193,335
Deferred financing costs	72,541	104,665
Total unrecognized deferred income tax assets	$ 6,890,398	$ 6,726,413

The Company has not recorded potential deferred income tax assets as the Company does not have any current source of income to which the tax losses can be applied.

At December 31, 2013, included in the computation of the deferred tax assets noted above, the Company had approximately $810,639 of losses available for carry-forward and $25,553,887 of resource pools. The loss carry-forward can be offset against income for Canadian income tax purposes in future years and will expire between 2025 and 2033 as below:

2025	$	136,176
2029		153,737
2030		239,449
2031		183,166
2032		76,150
2033		28,958
	$	817,636