ODIN MINING AND EXPLORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

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BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
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Independent Auditor's Report

To the Shareholders of Odin Mining and Exploration Ltd.
(An Exploration Stage Company)

We have audited the accompanying consolidated financial statements of Odin Mining and Exploration Ltd. which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of income/(loss) and comprehensive income/(loss), shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's 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 the auditor's 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, the auditor considers 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 in 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 Odin Mining and Exploration Ltd. as at December 31, 2013 and 2012, and the financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that the Company has a deficit of $14,766,619 since inception and is expecting to incur further losses in the development of its business. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, British Columbia
April 29, 2014

ODIN MINING AND EXPLORATION LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2013
(Expressed in U.S. Dollars)

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	**$ 141,338**	$ 1,000,140
Other receivables (Note 5)	**8,000**	11,254
Prepaid expenses and deposits	**8,082**	67,067
Total current assets	**157,420**	1,078,461
Non-current assets		
Environmental deposit	**84,963**	75,000
Property and equipment (Note 6)	**275,831**	287,304
Exploration and evaluation assets (Note 7)	**1**	2,581,286
Total non-current assets	**360,795**	2,943,590
TOTAL ASSETS	**$ 518,215**	$ 4,022,051
LIABILITIES		
Current liabilities		
Bank indebtedness	**$ 15,000**	$ -
Trade and other payables	**114,940**	177,386
Loans payable (Note 8)	**115,497**	-
Total current liabilities	**245,437**	177,386
EQUITY		
Share capital (Note 10)	**14,753,759**	14,753,759
Shares to be issued (Note 10)	**7,334**	-
Share-based payment reserve (Note 10)	**278,304**	278,304
Accumulated deficit	**(14,766,619)**	(11,187,398)
Total equity	**272,778**	3,844,665
TOTAL LIABILITIES AND EQUITY	**$ 518,215**	$ 4,022,051

Approved by the Board of Directors:

"*Stephen W.C. Stow*" — Stephen W.C. Stow, Director

"*Levi Giesbrecht*" — Levi Giesbrecht, Director

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

ODIN MINING AND EXPLORTION LTD.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE INCOME LOSS
For the Years Ended December 31
(Expressed in U.S. Dollars)

	2013	2012
Interest and other income (Note 12)	**$ 13,285**	$ 32,748
Expenses		
Depreciation	**852**	952
Employee costs	**63,439**	130,202
Management fees (Note 13)	**24,000**	79,348
Other expenses (Note 12)	**174,171**	225,379
Write down of exploration and evaluation assets (Note 7)	**3,330,044**	-
	3,592,506	435,881
Loss before other item	**(3,579,221)**	(403,133)
Fair value adjustment of derivative liabilities (Note 9)	**-**	459,167
Comprehensive income/ (loss) for the year	**$ (3,579,221)**	$ 56,034
Earnings (loss) per share (Note 18)		
Basic and diluted earnings (loss) per share	**$ (0.04)**	$ 0.00
Weighted average number of shares outstanding	**97,486,914**	88,651,571

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

ODIN MINING AND EXPLORTION LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31
(Expressed in U.S. Dollars)

	Share Capital		Shares to be	Share-based Payment	Accumulated	
	Number	Amount	Issued	Reserve	Deficit	TOTAL
Balance, December 31, 2011	**84,021,243**	**$13,415,127**	**$ -**	**$ 377,088**	**$(11,362,216)**	**$ 2,429,999**
Issuance of shares for cash, net	13,450,000	1,338,632	-	-	-	1,338,632
Share-based compensation (Note 11b)	-	-	-	20,000	-	20,000
Expiry of stock options	-	-	-	(15,000)	15,000	-
Cancellation of stock options	-	-	-	(103,784)	103,784	-
Comprehensive income for the year	-	-	-	-	56,034	56,034
Balance, December 31, 2012	**97,471,243**	**14,753,759**	**-**	**278,304**	**(11,187,398)**	**3,844,665**
Shares to be issued (Note 10b)	-	-	7,334	-	-	7,334
Comprehensive loss for the year	-	-	-	-	(3,579,221)	(3,579,221)
Balance, December 31, 2013	**97,471,243**	**$14,753,759**	**$ 7,334**	**$ 278,304**	**$(14,766,619)**	**$ 272,778**

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

ODIN MINING AND EXPLORTION LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31
(Expressed in U.S. Dollars)

		2013		2012
Cash flows used by operating activities				
Net income (loss) for the year	**$**	**(3,579,221)**	$	56,034
Items not involving cash				
Depreciation		**852**		952
Write-down of exploration and evaluation assets		**3,330,044**		-
Foreign exchange		**9,729**		(16,799)
Amortization of financing costs		**460**		-
Stock-based compensation		**-**		5,714
Fair value adjustment of derivative liabilities		**-**		(459,167)
Change in non-cash operating working capital items:				
Environmental deposit		**(9,963)**		-
Other receivables		**3,254**		27,265
Prepaid expenses and deposits		**58,985**		(5,118)
Accounts payable and accrued liabilities		**(62,446)**		(26,118)
		(248,306)		(417,237)
Cash flows used by investing activities				
Mineral property acquisition and exploration expenditures		**(738,138)**		(1,487,149)
Investment in short-term deposit		**-**		1,430,012
Purchase of property and equipment		**-**		(1,178)
		(738,138)		(58,315)
Cash flows from financing activities				
Proceeds of loans payable		**122,371**		-
Proceeds of bank indebtedness		**15,000**		
Issuance of shares		**-**		1,358,049
Share issue costs		**-**		(19,417)
		137,371		1,338,632
Foreign exchange		**(9,729)**		16,799
Increase (decrease) in cash and cash equivalents		**(858,802)**		879,879
Cash and cash equivalents, beginning of year		**1,000,140**		120,261
Cash and cash equivalents, end of year	**$**	**141,338**	$	1,000,140
Additional information:				
Depreciation capitalized to properties (Note 5)	**$**	**10,621**	$	17,487
Change in accounts payable related to investing activities in mineral property expenditures	**$**	**-**	$	77,302
Deferred financing costs arising from the issuance of shares	**$**	**7,334**	$	-
Share-based compensation included in mineral property expenditures	**$**	**-**	$	-
Expired and cancelled options credited to deficit	**$**	**-**	$	118,784

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

1. CORPORATE INFORMATION

Odin Mining and Exploration Ltd's (the "Company") business activity is the exploration and evaluation of mineral properties in Ecuador. The Company was incorporated under the Business Corporation Company Act of British Columbia on March 22, 1988. The Company is listed on the TSX-Venture Exchange, having the symbol ODN.V.

The address of the Company's registered office and principal place of business is 1500 – 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

Statement of Compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on April 29, 2014.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for derivative liabilities measured at fair value.

The consolidated financial statements comprise the accounts of the parent and its wholly owned subsidiaries ("the Group"), for the year ended December 31.

The consolidated financial statements are presented in United States dollars, which is also the Company's functional currency, and all values are rounded to the nearest dollar, unless otherwise indicated.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Going Concern of Operations

These consolidated financial statements have been presented on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Realization values may be substantially different from the carrying values shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2013, the Company had not yet achieved profitable operations, has accumulated losses of $14,766,619 since inception, has a working capital deficit of $88,017 and is expected to incur further operating losses in the development of its business, all of which raises significant doubt about its ability to continue as a going concern. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated.

a) Foreign Currency Transactions

Transactions in foreign currencies are translated to United States dollars, the functional currency of each company in the Group, as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into United States dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into United States dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

Non-monetary assets and liabilities that are measured at historical cost are translated into United States dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently re-measured. Non-monetary assets and liabilities that are measured at fair value or a re-valued amount are translated into United States by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized. Where applicable amounts denominated in Canadian dollars are reference "C".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

b) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

c) Mineral Exploration and Evaluation Costs

Pre-exploration Costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and Evaluation Expenditures

Once the legal right to explore a property has been acquired, which due to the political risk associated with exploration in Ecuador includes receipt of initial drilling permits, costs directly related to exploration and evaluation expenditures are capitalized. These direct expenditures include such costs as acquisition costs, permits and licenses, direct labour costs, materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation costs, in excess of estimated recoveries, are written off to the consolidated statement of comprehensive income/ (loss).

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction of capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

d) Environmental Deposits

Cash which is subject to contractual restrictions on use is classified separately as deposits. Security deposits required to be made to regulatory bodies, such as environmental or reclamation deposits, are classified as deposits.

e) Property and Equipment

Recognition and Measurement

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent Costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

e) Property and Equipment - continued

Major Maintenance and Repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Gains and Losses

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

Depreciation

Depreciation is recognized in profit or loss or capitalized if used for exploration activities and is provided for over the asset's estimated useful life, as follows:

Computers and equipment	20% to 30% declining balance basis
Automotive	20% to 30% straight-line basis

Depreciation methods, estimated useful lives and residual values are reviewed at each year end and adjusted if appropriate. The effect of any changes in estimate is accounted for on a prospective basis.

f) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets, including exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where is it not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

Impairment loss is charged to profit or loss; except to the extent it reverses gains previously recognized in accumulated other comprehensive loss/income.

g) Financial Instruments

Financial Assets

Financial assets are classified into the following category based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy is as follows:

<u>Loans and receivables</u> – Loans and receivables are comprised of cash. These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

<u>Impairment of Financial Assets</u> – At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows or the financial asset or the group of financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

g) Financial Instruments - continued

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise bank indebtedness, trade payable and accrued liabilities and loans payable. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding. Bank indebtedness relates to cheques in excess of cash on hand at reporting date.

Trade and other payable represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid.

Derivative Financial Instruments

The Company reviews the terms of its equity instruments and other financing arrangements to determine whether there are embedded derivative instruments that are required to be accounted for separately as a derivative financial instrument. Also, in connection with the issuance of financing instruments, the Company may issue freestanding options or warrants that may, depending upon their terms, be accounted for as a derivative liability due to the exercise price of the warrants are denominated in a currency other than the functional currency of the Company.

Derivative financial instruments are initially measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instruments are initially recorded at fair value and are then re-valued at each reporting date, with changes in the fair value reported as charges or credits to the consolidated statement of comprehensive income/(loss). For warrant-based derivative financial instruments, the Company uses the Black-Scholes option pricing model to measure the derivative instruments.

h) Provisions

Provision for Site Restoration

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related exploration properties. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or change in rehabilitation costs will be recognized as additional to the corresponding assets and rehabilitation liability in the period in which they occur.

As at December 31, 2013 and 2012, the Company had no site restoration obligations.

Other Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

i) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss of the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting of taxable profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

i) Income Taxes - continued

Recognition of deferred tax assets of unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

j) Share capital and warrants

Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and share warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Warrants

The Company uses the residual value method to value warrants that are equity instruments issued as part of private placement units. The fair value of warrants is calculated by deducting the fair value of the share component of the unit from the total unit price. The fair value assigned to warrants is recorded as a reduction to share capital and an increase in warrant reserve. If the warrants are exercised the entry is reversed. If the warrants expire unexercised, the value is reallocated to retained earnings / deficit.

The fair value of warrants determined to be a financial liability is calculated and recorded as a derivative liability as discussed above under derivative financial instruments policy.

k) Earnings (Loss) per share

Basic earnings (loss) per common share is computed by dividing the net income (loss) available to common shareholders of the Company by the weighted average number of shares outstanding or committed to issue for the relevant year.

Diluted earnings (loss) per common share is computed by dividing the net income (loss) applicable to common shareholders by the sum of the weighted average number of common shares outstanding or committed plus all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

l) Share-based payments

The Company has a stock option plan under which it grants stock options to directors, employees, consultants and service providers.

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in consolidated statement of comprehensive income/(loss) over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

l) Share-based payments – continued

The Company issued shares to creditors as a bonus for providing debt financing to the Company. These bonus shares are valued the market value of the shares on the date the Company has the legal obligation to issue the shares. The value of the shares is recorded as deferred financing fees and netted against the related indebtedness. The amount of deferred financing costs is amortized on a straight-line basis over the term of the indebtedness.

All equity-settled share-based payments are reflected in share-based payment reserve, until exercised. Upon exercise the fair value of is credited to share capital, along with the cash consideration, with an offsetting reduction in the share-based payment reserve. When options expire unexercised the fair value of the options expiring is credited to deficit with an offsetting reduction in the share-based payment reserve.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

m) Standards, Amendments and Interpretations Not Yet Effective

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2013 reporting period. These standards and interpretations have not been adopted and are yet to be assessed by the Company:

- New standard IFRS 9, Financial Instruments, classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, “Financial Instruments: Recognition and Measurement.” IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. This standard is effective for years beginning on or after January 1, 2015.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Judgments

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carry amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Title to Mineral Property Interests – Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company’s title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Exploration and Evaluation Expenditure – The application of the Company’s accounting policy for exploration and evaluation expenditure requires judgment in determining whether is likely that future economic benefits will flow to the Company.

If, after exploration and evaluation expenditure is capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount the Company carries out an impairment test at the cash generating unit or group of cash generating units level in the year the new information becomes available. The Company has determined that there indicators of impairment were present and have recorded an impairment provision to reduce the carrying value of its exploration and evaluation assets to a nominal recoverable value.

Income taxes and recovery of deferred tax assets – The Company has not recognized a deferred tax asset as management believes it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

(Expressed in U.S. Dollars)

5. OTHER RECEIVABLES

	December 31, 2013	December 31 2012
HST recoverable	$ -	$ 2,554
Expense advances to employees	8,000	8,700
	$ 8,000	$ 11,254

6. PROPERTY AND EQUIPMENT

	Land	Computers and Equipment	Automotive	Total
Cost				
Balance at December 31, 2011	$ 250,000	$ 40,024	$ 90,512	$ 380,536
Additions	-	1,178	-	1,178
Balance at December 31, 2013 and 2012	250,000	41,202	90,512	381,714
Depreciation				
Balance at January 1, 2012	-	32,413	43,558	75,971
Depreciation for the year	-	4,639	13,800	18,439
Balance at December 31, 2012	-	37,052	57,358	94,410
Depreciation for the year	-	2,050	9,423	11,473
Balance at December 31, 2013	**$ -**	**$ 39,102**	**$ 66,781**	**$ 105,883**
Carrying amounts				
At December 31, 2012	$ 250,000	$ 4,150	$ 33,154	$ 287,304
At December 31, 2013	**$ 250,000**	**$ 2,100**	**$ 23,731**	**$ 275,831**

During the year ended December 31, 2013, $10,621(2012 - $17,487) of amortization was capitalized in exploration and evaluation assets

7. EXPLORATION AND EVALUATION ASSETS

The Company has entered into a number of agreements to acquire mining concessions or options to acquire mining concessions in Ecuador, as detailed below. On April 18, 2008 the government of Ecuador passed a Mining Mandate to draft and implement a new mining law. This Mining Mandate superseded the existing mining law and international investment agreements under which mineral concessions were granted and investment were made. In addition, the government cancelled certain mining concessions due to non-payment of patent taxes and indicated potential cancellation of certain mining concessions for late payment of patent taxes, including certain of the Company's concessions.

In January 2009, a new Mining Law for Ecuador was published in the State's Official Register, thereby becoming law. Uncertainties in the Law were clarified with the enactment of the Regulations in November 2009, cancelling the Mining Mandate and reinstating mining activities.

Despite the enactment of the new Mining Law, the lack of accompanying Regulations and formal notification to the Company to continue exploration efforts resulted in the Company suspending any exploration activities. Prior to the Company receiving approval for exploratory drilling in 2011, the Company charged all exploration and evaluation costs to the consolidated statement of comprehensive loss.

In September 2011 the Company received drilling and other permits required to commence further exploration of its properties. From that date the Company has capitalized all expenditures directly related to the exploration of its mineral properties.

The Company has or has rights to 12 separate mineral titles located near Machala South West Ecuador, known as the "Cangrejos Concessions". The mineral rights payments related to those concessions in 2013 amounted to $90,401 (2012 - $83,859).

In addition to the above mineral titles, on September 20, 2007, the Company entered into an option agreement to acquire a mining right in the contiguous properties known as the "Castro Concessions". The agreement, as amended December 23, 2009 and July 13, 2012, calls for payments totalling $2,400,000 to complete the acquisition of the mineral rights, payable as follows: December 31, 2007 -$80,000 (paid); December 20, 2009 - $80,000 (paid); September 20, 2011 - $180,000 (paid); later of June 30, 2012 and completion of fund raising approved by the TSX-V - $100,000 (paid); July 30, 2013 - $100,000 (paid); July 30, 2014 - $460,000; and July 30, 2015 - $1,400,000.

(Expressed in U.S. Dollars)

7. EXPLORATION AND EVALUATION ASSETS – Continued

During the year ended December 31, 2013, $10,621 (2012 - $17,487) of depreciation was capitalized to exploration and evaluation assets.

After further consideration of the changes in the Ecuador mining laws and regulations, and their effect on the Company's ability to raise additional funding for further exploration and option payments, management determined that uncertainty on future recoverability of its mineral property asset indicated that the exploration and evaluation assets was impaired and during the year ended December 31, 2013, an impairment charge of $3,330,044 was recognized in respect of the Company's mineral property asset. Future expenditures will be regularly assessed for impairment based on conditions then existing.

2013 Expenditures

Balance at December 31, 2012	**$ 2,581,286**
Expenditures in 2013	
Mineral rights	**190,401**
Legal fees	**52,965**
Assays	**8,885**
Camp	**111,906**
Camp access and improvements	**11,975**
Environmental	**1,344**
Geological consulting	**51,441**
Geological staff	**298,559**
Transportation	**21,283**
	3,330,045
Write down of exploration and evaluation assets	**(3,330,044)**
Balance at December 31, 2013	**$ 1**

2012 Expenditures

Balance at December 31, 2011	**$ 985,063**
Expenditures in 2012	
Mineral rights	183,859
Legal fees	34,440
Assays	110,939
Camp	137,171
Camp access and improvements	34,649
Drilling	386,728
Environmental	20,160
Geological consulting	168,695
Geological staff	476,294
Transportation	43,288
Balance at December 31, 2012	**$ 2,581,286**

8. LOANS PAYABLE

	December 31, 2013	**December 31, 2012**
In December 2013, the Company entered into five unsecured loan agreements, each due on June 30, 2014, with interest at 4% per annual until February 15, 2014 and 12% per annum thereafter. As additional consideration the Company will issue 520,000 bonus shares, valued at $7,334, the quoted market price of the Company's common shares on the date of the loan agreements. The value of the bonus shares is recorded as financing costs deducted from the loan and is expensed to profit and loss on a straight-line basis over the term of the loans.		-
Total Loans Payable	**$ 122,371**	**$ -**
Unamortized financing costs	**(6,874)**	**-**
	$ 115,497	**$ -**

(Expressed in U.S. Dollars)

9. DERIVATIVE LIABILTY FOR WARRANTS

The derivative liabilities consisted of options to non-employees and common share purchase warrants with an exercise price in a different currency than the Company's functional currency and were measured at their respective fair values at each reporting period as follows:

	2013	2012
Balance, beginning	**$ -**	$ 459,167
Less: Fair value adjustment	**-**	(459,167)
Balance, ending	**$ -**	$ -

Warrants expired December 24, 2012

During 2010 the Company issued 14,056,875 share purchase warrants. The warrants entitled the holder to acquire one common share at a price of C$0.30 per share to December 24, 2012. The estimated fair value of these incentive warrants at the grant date was $1,676,001 using the Black-Scholes model. The fair value was initially recorded as a share issue cost and derivative liability. At December 31, 2011 the warrants were revalued using the Black-Scholes model with an estimated fair value of $459,167. On expiry of the unexercised warrants on December 24, 2012, the derivative liability of $459,167 was fully derecognized in the consolidated statement of comprehensive income (loss). There were no such warrants outstanding for the year ended December 31, 2013.

10. SHARE CAPITAL AND RESERVES

a) Authorized

The Company's authorized capital consists of 200,000,000 (December 31, 2012 – 200,000,000) common shares without par value.

The holders of common shares are entitled to receive dividends, which may be declared from time to time, and are entitled to one vote per share at meetings of the Company.

b) Issued

Year ended December 31, 2013

(i) There were no shares issued during the year

(ii) At December 31, 2013 the Company had approved the issue of up to 1,320,000 common shares as an additional bonus to the lenders of certain loans. As at December 31, 2013 an obligation has been recorded as to 520,000 shares to be Issued related to loans received which were valued at $7,334, as determined by the market value of the shares on the date that the commitment was approved by the directors. See also Note 19.

Year ended December 31, 2012

(i) On August 27, 2012 the Company issued 13,450,000 common shares pursuant to a non-brokered private placement for proceeds of $1,338,632. The Company incurred share issue costs in the amount of $19,420 for legal and filing fees in relation to this private placement.

c) Share Purchase Warrants

A summary of the Company's outstanding share purchase warrants at December 31, 2013 and 2012 and the changes during the years then ended is presented below:

	Number of warrants	Weighted Average Exercise price (Canadian $)
Warrants outstanding, January 1 , 2012	14,056,875	C$0.30
Warrants expired	(14,056,875)	C$0.30
Warrants outstanding, December 31, 2012 and 2013	-	-

(Expressed in U.S. Dollars)

10. SHARE CAPITAL AND RESERVES – Continued

d) Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's balance sheet include, 'Share-based Payment Reserve', and 'Accumulated Deficit'.

- 'Share-based Payment Reserve' is used to recognize the value of stock option grants prior to exercise.
- 'Accumulated Deficit' is used to record the Company's change in deficit from earnings from period to period.

11. SHARE-BASED PAYMENTS

a) Option Plan Details

The Company has established an Incentive Share Option Plan for directors, officers, employees and consultants, enabling them to purchase common shares. The total number of options outstanding at any time cannot exceed 10% of the total number of outstanding common shares. The number of options granted to any individual shall not exceed 5% of the issued and outstanding shares of the Company from time to time. The number of options granted to consultants or investor relations consultants shall not exceed 2% of the issued and outstanding shares of the Company from time to time. The number of options granted to insiders shall not exceed 10% of the issued and outstanding shares of the Company from time to time. Each option granted under the plan is for a maximum term of five years. The exercise price of the options granted under the plan is established by the Board of Directors of the Company and cannot be less than the Discounted Market Price as calculated and defined in accordance with the policies of the TSX Venture Exchange. The options vest 25% on the date of grant and 25% every three months thereafter, except for options issued to employees or consultants conducting investor relations vest in stages over 12 months with no more than one-quarter of the Options vesting in any three month period.

The following table summarizes stock option activity for the years ending December 31, 2013 and 2012:

	Number	Weighted Average Exercise Price
Balance, January 1, 2012	4,815,000	C$0.25
Stock options expired	(675,000)	C$0.25
Stock options cancelled	(1,060,000)	C$0.25
Stock options granted	145,000	C$0.19
Balance December 31, 2012 and 2013	3,225,000	C$0.25

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2013:

Exercise Price per share (Canadian $)	Number Outstanding	Expiry	Weighted Average Remaining Contractual Life (Years)	Number unvested - not exercisable	Number Vested - exercisable
C$0.25	3,100,000	October 26, 2015	1.82	-	3,100,000
C$0.17	20,000	October 1, 2016	2.75	-	20,000
C$0.20	105,000	December 20, 2016	2.96	-	105,000
	3,225,000		2.85	-	3,225,000

b) Expenses Arising from Share-based Payment Transactions

During of the year ended December 31, 2012 the Company recorded stock-based compensation expense totaling $20,000 ($14,286 as geological expenditures and $5,714 as general and administration) in the consolidated statement of comprehensive income/(loss). There were no share-based payment transactions in the year ended December 31, 2013 recorded in the consolidated statement of loss and comprehensive income/loss.

(Expressed in U.S. Dollars)

12. OTHER INCOME AND OTHER EXPENSES

	2013	2012
Interest and other income or gains include:		
Interest income	**$ 13,285**	$ 4,938
Foreign exchange gain	**-**	27,810
	$ 13,285	$ 32,748

	2013	2012
Other expenses include:		
General and administration	**$ 45,161**	$ 78,074
Insurance	**13,255**	18,105
Professional fees	**81,217**	124,048
Rent	**5,376**	5,152
Foreign exchange loss	**29,162**	-
	$ 174,171	$ 225,379

13. RELATED PARTY TRANSACTIONS AND BALANCES

Key management includes directors (executive and non-executive) and senior management (CEO and acting CFO). The compensation paid or payable to key management for employee services is disclosed in the table below:

Transactions	Years ended December 31 2013	2012
Short-term employee benefits		
Executive salaries and remuneration	$ 24,000	$ 79,348
Directors' fees	-	58,053
	24,000	137,401
Share-based payments		
Shares to be issued to directors and officers as bonus shares (280,000 shares)	3,949	-
	$ 24,000	$ 137,401

Balances	Years ended December 31 2013	2012
Due to directors and officers included in loans payable	$ 65,814	$ -

14. INCOME TAXES

Income Taxes

	2013	2012
Current tax expense	**$ -**	**$ -**
Deferred tax expense	**-**	**-**
	$ -	**$ -**

Taxation in the Company and its subsidiaries' operational jurisdiction is calculated at the rate prevailing in its respective jurisdiction.

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

	2013	2012
Net income (loss) before income taxes	**$ (3,579,221)**	$ 56,034
Tax charge (recovery) based on statutory rate of 25.75% (2012: 26.50%)	**$ (922,000)**	$ 14,000
Effect of reduction in statutory rate	**(82,000)**	4,000
Non-deductible expenses	**-**	(113,000)
Foreign income taxed at other than Canadian statutory rates	**112,000**	1,000
Share issuance costs	**-**	(5,000)
Impact of over provision in the previous year	**-**	(120,000)
Other	**-**	(2,000)
Impact of foreign exchange	**148,000**	-
Change in unrecognized deferred tax assets	**744,000**	221,000
Deferred tax expense /(recovery)	**$ -**	$ **-**

Effective July 1, 2013, the Canadian Federal corporate tax rate is 15.0%, and the British Columbia provincial tax rate increased from 10. 0% to 11.0%. The statutory tax rate for Ecuador decreased from 24.00% to 23.00%.

(Expressed in U.S. Dollars)

14. INCOME TAXES - Continued

Deferred Tax Assets and Liabilities

No deferred tax asset has been recognized in respect of the following losses and temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax to be recovered:

	2013	2012
Non-capital losses	**$ 841,000**	$ 812,000
Capital losses	**1,213,000**	1,238,000
Un-deducted financing costs	**4,000**	6,000
Capital assets	**12,000**	11,000
Exploration and evaluation and other assets	**825,000**	84,000
Unrecognized deferred tax asset	**(2,895,000)**	(2,151,000)
Deferred tax liability	**$ -**	$ -

As at December 31, 2013, the Company has estimated non-capital losses for Canadian tax purposes of $3,391,000, that may be carried forward to reduce taxable income derived in future years. The Canadian non-capital losses are summarized below.

Non-capital Canadian tax losses expiring as follows:

Year of Expiry	Taxable Losses
2024	$ 157,000
2025	227,000
2026	825,000
2027	129,000
2028	542,000
2029	111,000
2030	653,000
2031	198,000
2032	313,000
2033	236,000
Total	$ 3,391,000

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is present throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies, and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated.

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – Continued

i) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk as follows:

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the US dollar and the Canadian dollar or other foreign currencies will affect the Company's operations and financial results. The Company could have exposure to foreign currency risk. The Company's functional currency is US dollars and it raises some of its capital and debt in Canadian dollars. The Company has not hedged its exposure to currency risk.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with Canadian financial institutions. The Company considers this risk to be immaterial.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

ii) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and other receivables. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at December 31, 2013 relating to cash of $141,338 and other receivables of $8,000. All cash, cash equivalents and short-term deposits are held at HSBC Canada. The Company considers this risk to be minimal for all cash and cash equivalent assets.

iii) Liquidity and Funding Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts and is available on demand. Funding risk is the risk that the Company may not be able to raise equity financing in a timely manner and on terms acceptable to management. There are no assurances that such financing will be available when, and if, the Company requires additional equity financing.

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments.

The following table summarizes the Company's significant remaining contractual maturities for financial liabilities at December 31, 2013 and 2012:

Contractual maturity analysis as at December 31, 2013

	Less than 3 months	3 - 12 months	Total
Bank indebtedness	$ 15,000	$ -	$ 15,000
Trade and other payables	$ 114,940	$ -	$ 114,940
Loans payable	$ -	$ 122,371	$ 122,371

Contractual maturity analysis as at December 31, 2012

	Less than 3 months	3 - 12 months	Total
Trade and other payables	$ 177,386	$ -	$ 177,386

(Expressed in U.S. Dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – Continued

iii) Liquidity and Funding Risk

Determination of Fair Value

Fair values have been determined for measurement and/or disclosure purposes using appropriate methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Consolidated Statement of Financial Position carrying amounts for cash, other receivables, trade and other payables and loans payable approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

16. CAPITAL MANAGEMENT

The Company monitors its cash, common shares, warrants and stock options as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development and production of the business.

The Company is not exposed to any externally imposed capital requirements.

17. SEGMENTAL REPORTING

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities in Ecuador.

18. EARNINGS PER SHARE

Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of shares outstanding during the year.

		2013		2012
Income (loss) attributable to ordinary shareholders	**$**	**(3,579,221)**	$	56,034
Weighted average number of common shares		**97,486,915**		88,651,571
Basic and diluted earnings (loss) per share	**$**	**(0.04)**	$	$0.00

The weighted average number of commons shares includes 97,471,243 outstanding common shares and the weighted average of 520,000 or 15,671 common shares committed to be issued at December 31, 2013.

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2013:

a) The Company entered into two unsecured loan agreements and received C$200,000. The loans are due on June 30, 2014, with interest at 4% per annum until February 15, 2014 and 12% per annum thereafter. As additional consideration the Company agreed to issue 800,000 bonus shares.

b) The Company issued 1,320,000 common shares for bonus payments related to loans payable. Of the total issued, 520,000 were for share issue obligations outstanding at December 31, 2013 and 800,000 were for loans received subsequent to December 31, 2013.