# Bonterra Resources Inc.

## Condensed Consolidated Interim Financial Statements

## For the three months ended August 31, 2013

**Bonterra Resources Inc.**

**Unaudited Condensed Interim Financial Statements**
**For the three months ended August 31, 2013**

**Notice of No Auditor Review of Condensed Interim Financial Statements**

The accompanying unaudited condensed interim financial statements have been prepared by management and approved by the Audit Committee.

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

## Bonterra Resources Inc.
## Condensed Consolidated Interim Statements of Financial Position
## (unaudited)

| | Note | **August 31, 2013** | May 31, 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | | | |
| Cash and cash equivalents | | $ 66,528 | $ 16,058 |
| GST and HST receivable | | 15,485 | 9,151 |
| Prepaid expenses and deposits | | 72,649 | 10,757 |
| | | 154,662 | 35,966 |
| Equipment | 6 | 19,564 | 20,886 |
| Exploration and evaluation assets | 7 | 6,240,870 | 6,484,001 |
| | | $ 6,415,096 | $ 6,540,853 |
| **LIABILITIES** | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | | 721,006 | $ 977,455 |
| Other liabilities | 8 | 94,691 | 94,691 |
| Due to related parties | 9 | 143,997 | 120,542 |
| | | 959,694 | 1,192,688 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 10 | 19,643,106 | 19,423,257 |
| Share-based payment reserve | 11 | 2,001,745 | 2,001,744 |
| Deficit | | (16,189,449) | (16,076,836) |
| | | 5,455,402 | 5,348,165 |
| | | $ 6,415,096 | $ 6,540,853 |

Approved on behalf of the Board:

*"Nav Dhaliwal"* Director

*"Casey Forward"* Director

**Bonterra Resources Inc.**
**Condensed Consolidated Interim Statements of Comprehensive Loss**
**For the three months ended August 31**
**(unaudited)**

| | Note | **2013** | 2012 |
|---|---|---|---|
| **Expenses** | | | |
| Amortization | | $ 1,322 | $ 1,608 |
| Bank charges and interest | | 718 | 274 |
| Consulting fees | 9 | 23,867 | 69,000 |
| Management fees | 9 | 30,000 | 32,000 |
| Office and general | | 13,235 | 35,799 |
| Pre-exploration costs | | - | 55,000 |
| Professional fees | 9 | 15,282 | 32,490 |
| Rent (net of recovery) | 9 | 16,920 | 16,702 |
| Shareholder communications and investor relations | | 8,850 | 80,114 |
| Transfer agent and filing | | 1,571 | 1,068 |
| Travel | | 2,547 | 18,376 |
| Total expenses | | (114,312) | (342,431) |
| Interest income | | 1,699 | 35 |
| **Net loss and comprehensive loss for the [period** | | (112,613) | (342,396) |
| **Loss per share, basic and diluted** | | $ (0.00) | $ (0.00) |
| **Weighted average number of shares outstanding** | | 94,394,252 | 82,005,501 |

## Bonterra Resources Inc.
## Condensed Consolidated Interim Statements of Cash Flows
## For the three months ended August 31
## (unaudited)

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net loss for the year | | $ (112,613) | $ (342,396) |
| Items not involving cash | | | |
| Amortization | | 1,322 | 1,608 |
| | | (111,291) | (340,788) |
| **Operating cash flows before movements in working capital** | | | |
| Changes in non-cash working capital | | | |
| GST and HST receivable | | (6,334) | 88,055 |
| Prepaid expenses | | (61,892) | 37,491 |
| Accounts payable and accrued liabilities | | (256,449) | 113,185 |
| Due to related parties | | 23,455 | (15,905) |
| **Net cash used in operating activities** | | (412,511) | (117,962) |
| **Financing Activities** | | | |
| Shares issued for cash, net of issuance costs | | 219,850 | - |
| **Net cash provided from financing activities** | | 219,850 | - |
| **Investing Activities** | | | |
| Purchase of capital assets | | - | (3,596) |
| Recovery of Quebec mineral credits | | 262,464 | - |
| Acquisition and exploration of mineral properties | | (19,333) | (104,118) |
| **Net cash used in investing activities** | | 243,131 | (107,714) |
| **Change in cash** | | 50,470 | (225,676) |
| **Cash and cash equivalents, beginning of period** | | 16,058 | 935,373 |
| **Cash and cash equivalents, end of period** | | $ 66,528 | $ 709,697 |
| **Supplemental cash flow information** | **5** | | |

**Bonterra Resources Inc.**

**Condensed Consolidated Interim Statements of Equity**

**(unaudited)**

| | | Share Capital | | Share-based Payment | | |
|---|---|---|---|---|---|---|
| | **Note** | Shares | Amount | Reserves | Deficit | Total |
| Balance, May 31, 2012 | | 82,005,501 | 18,813,522 | 1,972,071 | (9,304,870) | 11,480,723 |
| Comprehensive loss | | - | - | - | (342,396) | (342,396) |
| Balance, August 31, 2012 | | 82,005,501 | $ 18,813,522 | $ 1,972,071 | $ (9,647,266) | $ 11,138,327 |
| Balance, May 31, 2013 | | 92,468,001 | 19,423,257 | 2,001,744 | (16,076,836) | 5,348,165 |
| Issued for cash | | | | | | |
| Private placement - September 2012 | | 4,000,000 | 200,000 | - | - | 200,000 |
| Private placement - Febraury 2013 | | 1,000,000 | 50,000 | - | - | 50,000 |
| Issue costs | | - | (30,150) | - | - | (30,150) |
| Comprehensive loss | | - | - | - | (112,613) | (112,613) |
| Balance, August 31, 2013 | | 97,468,001 | $ 19,643,107 | $ 2,001,744 | $ (16,189,449) | $ 5,455,402 |

## 1. NATURE OF OPERATIONS

Bonterra Resources Inc. (the "Company") is an exploration stage company incorporated on May 1, 2007, under the laws of the Province of British Columbia, Canada. Its principal business activity is the acquisition, exploration and evaluation of mineral properties located in the Provinces of British Columbia and Quebec, Canada. The Company's common shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "BTR". The Company's head office and principal business address is 4006 – 1011 West Cordova Street, Vancouver, British Columbia, Canada, V6C 0B2.

The Company is in the process of acquiring and exploring its resource properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts shown for resource properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and upon future profitable production.

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance

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

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on October 30, 2013.

### (b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these financial statements have been prepared using the accrual basis of accounting.

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting using accounting policies consistent with International Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in, and should be read in conjunction with, the Company's May 31, 2013 audited financial statements.

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on October 30, 2013.

### (b) Going Concern

The Company incurred a loss of $112,613 for the three months ended August 31, 2013, and had working capital of $805,032 and an accumulated deficit of $16,189,449 at August 31, 2013 which has been funded primarily by the issuance of equity. These factors indicate the existence of material uncertainity that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its resource properties when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation assets or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These financial statements do not give effect to any adjustments required to realize it assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at May 31, 2013. These unaudited condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended May 31, 2013.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

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

### (a) Rehabilitation Provisions

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time of the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

As at August 31, 2013 the Company has no known rehabilitation requirements and accordingly, no provision has been made.

### (b) Exploration and Evaluation Expenditure and Impairment

The application of the Company's accounting policy for exploration and evaluation expenditures and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in profit or loss in the year the new information becomes available.

### (c) 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.

## 5. SUPPLEMENTAL CASH FLOW INFORMATION AND NON-CASH TRANSACTIONS

| | For the three months ended August 31, 2013 | For the three months ended August 31, 2012 |
|---|---|---|
| Interest paid | $ - | $ - |
| Income taxes paid | $ - | $ - |
| Mineral property costs incurred in accounts payable | $ 586,313 | $ 585,306 |

## 6. EQUIPMENT

| **Property and equipment** | Furniture and equipment | Computer equipment | Total |
|---|---|---|---|
| June 1, 2012 | $ 18,130 | $ 17,979 | $ 36,109 |
| Additions | - | 3,597 | 3,597 |
| May 31, 2013 | 18,130 | 21,576 | 39,706 |
| Additions | - | - | - |
| August 31, 2013 | $ 18,130 | $ 21,576 | $ 39,706 |

| **Accumulated amortization** | | | |
|---|---|---|---|
| June 1, 2012 | $ 5,897 | $ 6,490 | $ 12,387 |
| Amortization | 2,447 | 3,986 | 6,433 |
| May 31, 2013 | 8,344 | 10,476 | 18,820 |
| Amortization | 489 | 833 | 1,322 |
| August 31, 2013 | 8,833 | 11,309 | 20,142 |

| | | | |
|---|---|---|---|
| Net book value, May 31, 2013 | $ 9,786 | $ 11,100 | $ 20,886 |
| Net book value, August 31, 2013 | $ 9,297 | $ 10,267 | $ 19,564 |

## 7. EXPLORATION AND EVALUATION ASSETS

**For the three months ended August 31, 2013**

| | Zacatecas North | Eastern Extension/ Urban Barry | Total |
|---|---|---|---|
| Balance, beginning of year | $ 1 | $ 6,484,000 | $ 6,484,001 |
| Acquisition costs | | | |
| Shares | - | - | - |
| | - | - | - |
| Deferred exploration expenditures | | | |
| Assays | - | 8,083 | 8,083 |
| Drilling | - | - | - |
| Geological consulting (note 9) | - | 11,250 | 11,250 |
| Geophysical surveys | - | - | - |
| Recovery of Quebec Mineral Credits | - | (262,464) | (262,464) |
| | - | (243,131) | (243,131) |
| Subtotal | 1 | 6,240,869 | 6,240,870 |
| Write-offs | - | - | - |
| Balance at May 31, 2013 | $ 1 | $ 6,240,869 | $ 6,240,870 |

**For the year ended May 31, 2012**

| | Zacatecas North | Eastern Extension/ Urban Barry | Total |
|---|---|---|---|
| Balance, June 1, 2011 | $ 5,811,170 | $ 5,975,095 | $ 11,786,265 |
| Acquisition costs | | | |
| Shares | - | - | - |
| | - | - | - |
| Deferred exploration expenditures | | | |
| Assays | - | 28,778 | 28,778 |
| Drilling | - | 356,155 | 356,155 |
| Geological consulting (note 10) | - | 123,972 | 123,972 |
| Geophysical surveys | 5,011 | - | 5,011 |
| Recovery of Quebec Mineral Credits | (33,838) | - | (33,838) |
| | (28,827) | 508,905 | 480,078 |
| Total | 5,782,343 | 6,484,000 | 12,266,343 |
| Write-offs | (5,782,342) | - | (1,325,000) |
| Balance at May 31, 2012 | $ 1 | $ 6,484,000 | $ 10,941,343 |

## 7. EXPLORATION AND EVALUATION ASSETS continued

### (a) Zacatecas North Property (Symphony)

By an asset purchase agreement dated April 30, 2008 and amended May 30, 2008 between Symphony and the property's vendor, Symphony purchased an undivided 100% interest in 18 mineral claims located adjacent to the Silver Queen mine property in central British Columbia, Canada, referred to as the Zacatecas North Property. In consideration for the claims, Symphony paid $10,000 in cash and issued 500,000 of its common shares valued at $0.125 per share based on the market value of the shares on share issue date.

On May 26, 2009, through the completion of the share exchange transaction, the Company acquired all of the issued and outstanding shares in the capital of Symphony from the Symphony shareholders in exchange for the issuance, by the Company, of 10,000,000 common shares to the Symphony shareholders and an additional 850,000 common shares for finders fees, all of which were capitalized as exploration and evaluation assets. The shares issued had a fair value of $0.46 per share resulting in $4,991,000 being capitalized as exploration and evaluation assets.

During the year ended May 31, 2010, the Company reduced the mineral claims to 6 claims.

During the year ended May 31, 2013, the Company has decided not to pursue this property and has written off the capitalized costs of $5,782,342.

### (b) Eastern Extension Properties/ Urban Barry

**(i) Urban Barry (Windfall Lake)**

During the year ended May 31, 2010, the Company acquired a 100-per-cent interest in 95 claim blocks in Quebec near Windfall Lake at a cost of $20,000 (paid), the issuance of 1,000,000 common shares to the vendors and 108,800 common shares to a finder (issued) and incurring $140,000 of exploration expenditures (incurred). The shares were valued at $155,232 based on the market value of the shares on share issue date. The property is subject to a 2% net smelter returns royalty of which 0.5% can be purchased by the Company for $1,000,000.

In addition the Company purchased a 100% interest in 27 mineral claims located in the James Bay area in Quebec. The aggregate consideration is $3,900 (paid) and 2,000,000 common shares (issued). The fair value of the shares was $360,000 based on the market value of the shares on the share issue date.

**(ii) Eastern Extension**

The Company entered into an option agreement on September 15, 2010, as amended on February 8, 2011 and March 19, 2012 to acquire 100% interest in 23 additional mineral claims adjacent to the Urban Barry claims in Quebec for aggregate consideration of $10,000 cash (paid), 1,750,000 common shares (issued) and $750,000 in exploration expenditures (incurred). The company has completed the acquisition and owns 100% subject to the NSR below.

The agreement is subject to a 2% NSR of which 1% can be purchased for $500,000. A finder's fee of 56,890 shares was paid in connection with this acquisition.

**(iii) Lavoie Property acquisition - adjacent to Eastern Extension**

On December 30, 2010, the Company closed and received approval from the TSX Venture Exchange for a property purchase agreement entered into on December 10, 2010 to acquire 100% interest in 57 mineral claims east of the Urban-Barry Township in Quebec. Consideration paid was 2,000,000 common shares valued at $860,000 based on the market price of the shares on the share issue date, and cash payments of $35,000. The agreement is subject to a 2% NSR of which 1% may be purchased for $1,000,000.

## 7. EXPLORATION AND EVALUATION ASSETS continued

**(iv) Anderson Property acquisition - Urban Barry Area**

On December 3, 2010, the Company closed and received approval from the TSX Venture Exchange for an option agreement entered into on November 8, 2010 to acquire 100% interest in 37 mineral claims in Quebec. The Company must issue a total 3,000,000 common shares (issued) of which the fair value is $1,320,000 based on the market value of the shares on the share issue date, and make cash payments of $5,000 on closing (paid) and $5,000 within one year, and incur total exploration expenditures of $400,000 evenly over two years. The agreement is subject to a 2% NSR.

The Company decided not to continue with this acquisition and wrote off the costs incurred of $1,325,000 in the year ended May 31, 2012.

## 8. OTHER LIABILITIES

Other liabilities include the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through share issuances.

Flow-through shares

| | Issued during the year ended May 31, 2013 | Issued during the year ended May 31, 2012 | Issued during the year ended May 31, 2011 | Total |
|---|---|---|---|---|
| Balance, June 1, 2011 | $ - | $ - | $ 100,424 | $ 100,424 |
| Liability incurred on flow-through shares issued | - | 347,862 | - | 347,862 |
| Settlement of flow-through share liability on incurring expenditures | - | (347,862) | (100,424) | (448,286) |
| Balance, May 31, 2012 | - | - | - | - |
| Liability incurred on flow-through shares issued in September 2012 | 138,875 | - | - | - |
| Liability incurred on flow-through shares issued in February 2013 | 44,625 | - | - | - |
| Settlement of flow-through share liability on incurring expenditures | (88,809) | - | - | - |
| Balance, May 31, 2013 | 94,691 | - | - | - |

In February 2013 the Company completed a non-brokered private placement consisting of the issue and sale of 1,487,500 flow-through units at $0.08 per flow-through unit. All proceeds were received by December 31, 2012 giving flow through tax deductions to subscribers for 2012.

In September 2012 the Company completed a brokered private placement consisting of the issue and sale of 5,555,000 flow-through units at $0.11 per flow-through unit. Each flow-through unit consisted of one flow-through common share and one half of one common share purchase warrant; each common share unit consisted of one common share and one half of one common share purchase warrant.

As at May 31, 2013, the Company has remaining commitment to incur exploration expenditures in relation to flow-through share financing totalling $337,603.

On July 15, 2011 the Company completed a brokered private placement consisting of the issue and sale of 4,347,826 flow-through units at $0.23 per flow-through unit and 3,331,666 common share units at $0.15 per NFT Unit for a total gross proceeds of $1,499,750. Each flow-through unit consisted of one flow-through common share and one half of one common share purchase warrant; each common share unit consisted of one common share and one half of one common share purchase warrant.

As at May 31, 2012, the Company had fulfilled its commitment to incur exploration expenditures in relation to this flow-through share financing.

## 9. RELATED PARTY TRANSACTIONS AND BALANCES

The following expenses were incurred with directors and officers of the Company and companies controlled by directors:

| **Key management personnel remuneration** | | **For the three months ended August 31, 2013** | | For the three months ended August 31, 2012 |
|---|---|---|---|---|
| Management and director fees | $ | 30,000 | $ | 32,000 |
| Accounting fees | | 15,000 | | 25,000 |
| Consulting fees | | - | | 20,000 |
| Pre-exploration costs | | - | | 30,000 |
| Deferred exploration costs | | - | | 15,000 |
| **Total key management personnel remuneration** | **$** | **45,000** | $ | 122,000 |
| **Other** | | | | |
| Rent (recovery) | | (18,250) | | (10,000) |
| Total | **$** | **26,750** | $ | 112,000 |

As at August 31, 2013 amounts due to related parties of $143,997 (May 31, 2013 - $120,542) was owing to current and former officers and directors.

Amounts due to related parties are unsecured, do not bear interest and have no fixed repayment terms.

These charges were measured by the exchange amount, which is the amount agreed upon by the related parties.

## 10. SHARE CAPITAL

### (a) Authorized

Unlimited common shares of no par value

### (b) Issued and outstanding

For the three months ended August 31, 2013

In June 2013 the Company closed a non-brokered private placement of 4,000,000 flow-through units (the "FT Units") at a price of $0.05 per FT Unit, and 1,000,000 non flow-through units (the "NFT Units") at a price of $0.05 per NFT Unit. The FT Units are comprised of one flow-through common share and one-half of one common share purchase warrant (each whole warrant a "Warrant"). The NFT Units are comprised of one non flow-through common share and one-half of one Warrant. Each Warrant entitles the holder to purchase an additional non flow-through common share of the Company (a "Warrant Share") at a price of $0.10 per Warrant Share for a period of one year from the date of issue. In connection with the Private Placement, the Company paid finder's fees consisting of cash fees totalling $22,500 and warrants to acquire 200,000 common shares of the Company at an exercise price of $0.10 per common share for a period of one year from the date of issue. Other issue costs totalled $7,650.

For the year ended May 31, 2013

In February 2013 the Company completed a non-brokered private placement of 1,487,500 flow-through units of the Company at $0.08 each and 2,420,000 non-flow through units of the Company at $0.05 per for total gross proceeds of $240,000. Each flow through unit consists of one flow-through common share of the Company and one non-transferable common share purchase warrant to purchase one non-flow through common share of the Company at a price of $0.12 until February 4, 2015. Each non-flow through unit consists of one common share of the Company and one common share purchase warrant to purchase one common share at a price of $0.10 until February 4, 2015. Share issue costs were $19,609.

In September 2012 the Company completed a brokered private placement of 5,555,000 flow-through units of the Company at $0.11 each and 1,000,000 non-flow through units of the Company at $0.085 per unit for total gross proceeds of $696,050. Each flow through unit consists of one flow-through common share of the Company and one-half of one non-transferable common share purchase warrant where each warrant entitles the holder to purchase one non-flow through common share of the Company at a price of $0.15 until March 21, 2014. Each non-flow through unit consists of one common share of the Company and one common share purchase warrant where each warrant entitles the holder to purchase one common share at a price of $0.12 until March 21, 2014. The Company paid a cash finder's fee of 8% of $55,684 and granted 524,400 warrants valued at $29,673, and incurred other share issue costs of $37,849. Each agent's warrant entitles the holder to purchase one common share of the Company at a price of $0.085 until March 21, 2014. The fair value of the warrants has been estimated as of the date of issuance using the Black-Scholes with the following assumptions: risk-free interest rate of 1.25%, dividend yield of 0%, volatility of 116% and expected life of 18 months.

## 10. SHARE CAPITAL continued

### (c) Stock options

On January 14, 2013, the Company adopted the 2013 incentive share option plan for granting options to directors, employees and consultants, under which the total outstanding options are limited to 10% of the issued and outstanding common shares of the Company. The options vest when granted except for options granted for investor relations activities which vest over a 12 month period with no more than 25% of the options vesting in any three month period.

On October 10, 2012 the Company granted 3,500,000 incentive stock options to officers, directors and consultants at a price of $0.10 per share for period of two years.

| | Number of stock options | | Weighted Average Exercise Price |
|---|---|---|---|
| Balance outstanding, June 1, 2011 | 5,180,000 | | 0.30 |
| Options granted | 3,500,000 | | 0.18 |
| Options granted to broker pursuant to financing (note 10b) | 434,783 | | 0.23 |
| Options exercised | (1,075,000) | | 0.13 |
| Options cancelled | (1,900,000) | $ | 0.38 |
| Options expired | (1,750,000) | | 0.33 |
| Balance outstanding, May 31, 2012 | 4,389,783 | | 0.21 |
| Options cancelled | (1,200,000) | | 0.24 |
| Options expired | (755,000) | | 0.33 |
| Balance outstanding, May 31, 2013 | 2,434,783 | | 0.18 |
| Options expired | (434,783) | | 0.23 |
| Balance outstanding, August 31, 2013 | 2,000,000 | $ | 0.18 |

The following table summarizes information about stock options, outstanding at August 31, 2013:

| **Exercise prices** | Number outstanding at August 31, 2013 | Number exercisable at August 31, 2013 | Weighted average remaining contractual life (years) |
|---|---|---|---|
| $ 0.175 | 2,000,000 | 2,000,000 | 0.7 |
| | 2,000,000 | 2,000,000 | |

### (d) Warrants

| (i) The changes in warrants were as follows: | **For the three months ended August 31, 2013** | | Weighted average exercise price $ | For the year ended May 31, 2012 | | Weighted average exercise price |
|---|---|---|---|---|---|---|
| Balance of warrants at beginning of year | 21,487,167 | $ | 0.21 | 26,109,433 | $ | 0.32 |
| Issued | 2,700,000 | | 0.10 | 8,209,400 | | 0.12 |
| Expired | (2,173,913) | | 0.50 | (12,831,666) | | 0.37 |
| Balance of warrants at end of year | 22,013,254 | $ | 0.17 | 21,487,167 | $ | 0.21 |

(ii) A summary of warrants outstanding is:

| Number of Warrants | | Exercise Price | Expiry Date |
|---|---|---|---|
| 524,400 | $ | 0.085 | 21-Mar-14 |
| 2,420,000 | $ | 0.10 | 1-Feb-15 |
| 1,000,000 | $ | 0.12 | 21-Mar-14 |
| 1,487,500 | $ | 0.12 | 1-Feb-15 |
| 2,777,500 | $ | 0.15 | 21-Mar-14 |
| 7,860,996 | $ | 0.20 | 12-Mar-14 |
| 3,242,858 | $ | 0.28 | 16-Nov-13 |
| 2,700,000 | $ | 0.10 | 25-Jun-14 |
| 22,013,254 | | | |

## 11. INCOME TAXES

At May 31, 2013, the Canadian parent company has accumulated Canadian Exploration and Development Expenditures of $5,353,000 (2012 - $5,263,000) and has accumulated non-capital losses totalling $5,706,000 (2012 - $4,418,000), which expire in various amounts from 2028 to 2033.

## 12. CAPITAL DISCLOSURES

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

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. There were no changes in the Company's approach to capital management during the year.

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

## 13. FINANCIAL INSTRUMENTS AND RISKS

As at August 31, 2013, the Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, and due to related parties. The carrying values of these financial instruments approximate their fair values.

### Fair Value

The Company classifies its fair value measurements in accordance with an established hierarchy that priorities the inputs in valuation techniques used to measure fair value as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and

Level 3 - Inputs that are not based on observable market date

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 66,528 | $ - | $ - | $ 66,528 |

### Credit Risk

Financial instruments that potentially expose the Company to credit risk are cash and cash equivalents. To minimize the credit risk on cash the Company places the instrument with a high credit quality financial institution. The maximum exposure to loss arising from these advances is equal to their total carrying amounts. The Company is exposed to credit risk with respect to its cash and cash equivalents. However, the risk is minimized as they are held at a major Canadian Chartered Bank.

### Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading and available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The Company is not exposed to significant market risk. The Company is not exposed to significant interest rate risk as the Company has no interest bearing debt. The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## 13. FINANCIAL INSTRUMENTS AND RISKS continued

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 13.

The Company monitors its ability to meet its short-term administrative expenditures by matching investment income received to expenditures to be incurred, and by disposing its investments when required. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

Foreign Exchange Risk

The Company's operations are transacted in Canadian dollar and are not exposed to significant foreign exchange risk.

### Interest Rate Risk

The Company is not exposed to significant interest rate risk.

## 14. RISK MANAGEMENT

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations; however it is not possible to be certain that all aspects of environmental issues affecting the Company, if any, have been fully determined or resolved.

## 15. EVENTS OCCURRING AFTER THE REPORTING DATE

On October 23, 2013 the Company announced it had entered into an exclusive non-binding letter of intent (the "LOI") with Gold Royalties Corporation (TSX---V: GRO) ("Gold Royalties") to sell a 1% net smelter return royalty interest (the "NSR") on the Eastern Extension Gold Property, located in Urban Barry Township. The terms of the LOI stipulate that Gold Royalties will purchase the NSR for 1,000,000 common shares of Gold Royalties (the "Share Consideration") at a deemed price of $0.50 per Gold Royalties Share (the "Transaction"). Closing of the Transaction, which is expected to occur on or before November 15, 2013 is subject to certain conditions, including execution of a binding definitive agreement (the "Definitive Agreement") and the approval of the TSX Venture Exchange (the "TSXV"). One---half of the Share Consideration will be provided to Bonterra at Closing, with the balance of the Share Consideration provided to Bonterra six months from the date of Closing.