GOLDQUEST
TSXV:GQC

GOLDQUEST MINING CORP.

Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

Goldquest Mining Corp.

We have audited the accompanying consolidated financial statements of Goldquest Mining Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and the consolidated statement of loss and comprehensive loss, changes in equity, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Goldquest Mining Corp. as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The consolidated financial statements of Goldquest Mining Corp. for the year ended December 31, 2012 were audited by another auditor who expressed an unqualified opinion granted on those statements on April 22, 2013.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Accountants

April 22, 2014

GoldQuest Mining Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at		December 31, 2013		December 31, 2012
ASSETS				
Current assets				
Cash and cash equivalents (note 4)	**$**	**10,901,946**	$	18,099,569
Amounts receivable (note 5)		**69,345**		77,223
Prepaid expenses		**108,397**		89,887
Deposits		**68,566**		114,924
Total current assets		**11,148,254**		18,381,603
Non-current assets				
Long-term investment (note 6)		**1,060,589**		909,076
Equipment (note 7)		**270,012**		173,135
Evaluation and exploration assets (note 8)		**1,247,000**		1,247,000
Total non-current assets		**2,577,601**		2,329,211
TOTAL ASSETS	**$**	**13,725,855**	$	20,710,814
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (notes 10 & 12)	**$**	**387,645**	$	792,499
TOTAL LIABILITIES		**387,645**		792,499
EQUITY				
Share capital (note 11)	**$**	**37,253,320**	$	37,253,320
Other reserve		**6,828,681**		6,742,886
Stock options reserve		**3,674,115**		2,484,628
Warrants reserve		**1,557,439**		1,557,439
Accumulated other comprehensive income		**151,513**		-
Deficit		**(36,126,858)**		(28,119,958)
TOTAL EQUITY		**13,338,210**		19,918,315
TOTAL EQUITY AND LIABILITIES	**$**	**13,725,855**	$	20,710,814

Corporate information and continuance of operations (note 1)
Commitments and contingencies (notes 8 & 13)
Segmented information (note 14)
Subsequent events (note 19)

See accompanying notes to these consolidated financial statements.

APPROVED BY THE BOARD:
/s/ Julio Espaillat Director *<u></u>/s/ Florian Siegfried Director*

GoldQuest Mining Corp.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

		For the year ended December 31, 2013		December 31, 2012
EXPENSES				
Depreciation	**$**	**100,303**	$	36,644
Evaluation and exploration costs (note 9)		**5,244,930**		3,416,707
Foreign exchange (gain) loss		**(433,071)**		3,286
General and administrative		**1,909,962**		1,518,073
Share-based payments (note 11(d))		**1,275,282**		1,947,947
TOTAL EXPENSES		**8,097,406**		6,922,657
OTHER INCOME				
Interest income		**(91,106)**		(35,165)
Loss on disposal of equipment		**600**		-
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**$**	**8,006,900**	$	6,887,492
DISCONTINUED OPERATIONS:				
Gain from discontinued operations, net of tax (note 17)		**-**		(668,355)
NET LOSS FOR THE YEAR	**$**	**8,006,900**	$	6,219,137
OTHER COMPREHENSIVE INCOME				
Unrealized gain on available-for-sale assets		**(151,513)**		-
TOTAL LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	**$**	**7,855,387**	$	6,219,137
Earnings (loss) per share (note 11(e)):				
Basic earnings (loss) per share:				
Continuing operations:	**$**	**(0.06)**	$	(0.06)
Discontinued operations:	**$**	**-**	$	0.01
	$	**(0.06)**	$	(0.05)
Diluted earnings (loss) per share:				
Continuing operations:	**$**	**(0.06)**	$	(0.06)
Discontinued operations:	**$**	**-**	$	0.01
	$	**(0.06)**	$	(0.05)

See accompanying notes to these consolidated financial statements.

GoldQuest Mining Corp.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share capital		Reserves					
	Number of shares	Amount	Other reserve	Stock options reserve	Warrants reserve	Accumulated other comprehensive income	Deficit	Total
Balance at December 31, 2011	**103,508,601**	**$ 16,539,516**	**$ 6,345,406**	**$ 1,201,997**	**$ 98,127**	**$ -**	**$ (21,900,821)**	**$ 2,284,225**
Shares and warrants issued for cash - private placement	33,205,000	22,040,982	-	-	191,268	-	-	**22,232,250**
Share issue costs	-	(3,153,453)	-	-	1,576,683	-	-	**(1,576,770)**
Shares issued for cash - exercise of warrants	4,906,445	775,400	-	-	-	-	-	**775,400**
Shares issued for cash - stock option exercise	2,359,998	474,400	-	-	-	-	-	**474,400**
Reclassification of grant-date fair value on exercise of warrants	-	210,514	-	-	(210,514)	-	-	**-**
Reclassification of grant-date fair value on exercise of stock options	-	365,961	-	(365,961)	-	-	-	**-**
Reclassification of grant-date fair value on expired warrants	-	-	98,125	-	(98,125)	-	-	**-**
Reclassification of grant-date fair value on expired options	-	-	299,355	(299,355)	-	-	-	**-**
Share-based payments	-	-	-	1,947,947	-	-	-	**1,947,947**
Net loss for the year	-	-	-	-	-	-	(6,219,137)	**(6,219,137)**
Balance at December 31, 2012	**143,980,044**	**$ 37,253,320**	**$ 6,742,886**	**$ 2,484,628**	**$ 1,557,439**	**$ -**	**$ (28,119,958)**	**$ 19,918,315**
Reclassification of grant-date fair value on expired stock options	-	-	85,795	(85,795)	-	-	-	**-**
Share-based payments	-	-	-	1,275,282	-		-	**1,275,282**
Fair value adjustment on available-for-sale investments	-	-	-	-	-	151,513	-	**151,513**
Net loss for the year	-	-	-	-	-	-	(8,006,900)	**(8,006,900)**
Balance at December 31, 2013	**143,980,044**	**$ 37,253,320**	**$ 6,828,681**	**$ 3,674,115**	**$ 1,557,439**	**$ 151,513**	**$ (36,126,858)**	**$ 13,338,210**

See accompanying notes to these consolidated financial statements.

GoldQuest Mining Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the year ended December 31, 2013	For the year ended December 31, 2012
Cash flows provided from (used by):		
OPERATING ACTIVITIES		
Net loss from continuing operations for the year	**$ (8,006,900)**	$ (6,887,492)
Adjustments for items not affecting cash:		
Depreciation	**120,774**	47,418
Share-based payments	**1,275,282**	1,947,947
Loss on disposal of equipment	**600**	-
	(6,610,244)	(4,892,127)
Net changes in non-cash working capital items:		
Amounts receivable	**7,878**	(55,476)
Prepaid expenses	**(18,510)**	(7,168)
Deposits	**46,358**	(89,682)
Accounts payable and accrued liabilities	**(404,854)**	507,917
Net cash flows used in operating activities	**(6,979,372)**	(4,536,536)
FINANCING ACTIVITIES		
Proceeds from share and warrant issuances	**-**	23,482,050
Share issue costs	**-**	(1,576,770)
Net cash flows from financing activities	**-**	21,905,280
INVESTING ACTIVITIES		
Purchase of equipment	**(218,751)**	(136,821)
Proceeds from disposal of equipment	**500**	-
Net cash flows used in investing activities	**(218,251)**	(136,821)
Net cash flows used in discontinued operations (note 17)	**-**	(121,954)
Net increase (decrease) in cash and cash equivalents	**(7,197,623)**	17,109,969
Cash and cash equivalents, beginning of year	**18,099,569**	989,600
Cash and cash equivalents, end of year	**$ 10,901,946**	$ 18,099,569
Cash and cash equivalents consist of :		
Cash	**$ 10,866,946**	$ 18,064,569
Term deposits	**35,000**	35,000
	$ 10,901,946	$ 18,099,569
Cash received during the year from interest	**$ 91,106**	$ 35,165
Cash paid during the year for interest	**$ -**	$ -
Cash paid during the year for income taxes	**$ -**	$ -
Supplementary cash flow information		
Shares received from Portex Minerals Inc.	**$ -**	$ 909,076
Finders' warrants issued	**-**	1,576,683
	$ -	$ 2,485,759

See accompanying notes to these consolidated financial statements.

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

GoldQuest Mining Corp. (the "Company" or "GoldQuest") is a publicly listed company incorporated in British Columbia on July 12, 1989 and its shares are listed on the TSX Venture Exchange under the symbol "GQC". The Company together with its subsidiaries (collectively referred to as the "Company") is engaged in the identification, acquisition and exploration of mineral properties in the Dominican Republic. The Company's registered office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, V7X 1L3.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of evaluation and exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. The Company's exploration assets are located outside of Canada and are subject to the risk of foreign investment, including political uncertainty, increases in taxes and royalties, renegotiation of contracts and currency exchange fluctuations.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, other land claims and non-compliance with regulatory and environmental requirements.

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 31, 2013, the Company had not advanced its property to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. Management intends to funds operating costs over the next twelve months with cash and cash equivalents and through further equity financings.

The consolidated financial statements of GoldQuest for the year ended December 31, 2013 were approved by the Board of Directors on April 22, 2014.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

a) Statement of compliance with International Financial Reporting Standards

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

The policies set out below were consistently applied to all periods presented unless otherwise noted below.

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments carried at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

b) Basis of preparation

These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective on December 31, 2013.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

c) Basis of consolidation

These consolidated financial statements comprise the accounts of the Company and the following wholly-owned subsidiaries of the Company:

- GoldQuest Mining (BVI) Corp., a company incorporated under the laws of British Virgin Islands ("BVI");
- Goldquest Dominicana SRL (formerly known as INEX Ingeniería y Exploración S.A.), a company incorporated under the laws of Dominican Republic.

All subsidiaries have a reporting date of December 31.

i. Subsidiaries

A subsidiary is an entity over which the Company has power to govern the operating and financial policies in order to obtain benefits from its activities. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

ii. Acquisitions and disposals

The results of businesses acquired during the reporting period are brought into the consolidated financial statements from the date the control is transferred; the results of businesses sold during the reporting period are included in the consolidated financial statements for the period up to the date the control is ceased.

Gains or losses on disposal are calculated as the difference between the sale proceeds (net of expenses) and the net assets attributable to the interest which has been sold. Where a disposal represents a separate major line of business or geographical area of operations, the net results attributable to the disposed entity are shown separately in the statement of loss and comprehensive loss.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

d) Significant management judgment and estimates in applying accounting policies

CRITICAL ACCOUNTING ESTIMATES

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence of the significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Impairment of evaluation and exploration assets

While assessing whether any indications of impairment exist for evaluation and exploration assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of evaluation and exploration assets. Internal sources of information include the manner in which evaluation and exploration assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's evaluation and exploration assets.

Estimation of decommissioning and restoration costs and the timing of expenditure

The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine or exploration property. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

d) Significant management judgment and estimates in applying accounting policies (continued)

CRITICAL ACCOUNTING ESTIMATES (continued)

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Contingencies

Contingencies are discussed in Note 13(b).

CRITICAL ACCOUNTING JUDGMENTS

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", management determined that the functional currency of the Company and its subsidiaries is the Canadian dollar, as this is the currency of the primary economic environment in which the Company operates.

The preparation of these financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, highly liquid investments that are readily convertible into a known amount of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. Cash and cash equivalents normally have a term to maturity of three months or less from the date of acquisition.

f) Financial instruments

Financial assets

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

Financial assets classified as loans and receivables are measured at amortized cost less impairment. The Company has classified its cash and amounts receivable as loans and receivables.

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

Financial assets classified as held-to-maturity are measured at amortized cost. The Company has no financial assets classified as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company has classified its long-term investment as available-for-sale.

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

Financial liabilities

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

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method. The Company has classified its accounts payable and accrued liabilities as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of loss. The Company has no financial liabilities classified as FVTPL.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

f) Financial instruments (continued)

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of loss.

Impairment of financial assets

The Company assesses at each financial reporting date whether a financial asset is impaired.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the effective interest rate computed at initial recognition. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. Objective evidence of impairment of loans and receivables exists if the counter-party is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counter-party that would not normally be granted, or it is probable that the counter-party will enter into bankruptcy or a financial reorganization.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

g) *Taxation*

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

h) *Loss per share*

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive.

i) *Share-based payments*

Share-based payment transactions

Employees (including directors and senior executives) of the Company, and individuals providing similar services to those performed by direct employees, receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”). The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments issued to non-employees are measured at the fair value of goods or services received.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

i) Share-based payments (continued)

Equity-settled transactions

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a year represents the movement in cumulative expense recognized as at the beginning and end of that year and the corresponding amount is represented in stock option reserve. No expense is recognized for awards that do not ultimately vest. For those awards that expire after vesting, the recorded value is transferred to other reserve.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share unless it is considered to be anti-dilutive.

Other reserve

Other reserve records the fair value of the expired options and warrants initially recorded in stock options reserve and warrants reserve.

Warrants reserve

The warrants reserve records the grant date fair value of the warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount recorded is transferred to other reserve.

Stock options reserve

The stock options reserve records items recognized as share-based payments expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to other reserve.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

j) *Evaluation and exploration*

Evaluation and exploration assets

Evaluation and exploration assets include acquired mineral rights for mineral exploration properties held by the Company. The amount of consideration paid (in cash or share value) for mineral rights is capitalized. The amounts shown for evaluation and exploration assets represent costs of acquisition, other than transaction costs, incurred to date, less recoveries, and do not necessarily reflect present or future values. These costs will be amortized against revenue from future production or written off if the evaluation and exploration assets are abandoned or sold. Included in the cost of evaluation and exploration assets is the cost of any estimated decommissioning liability. The Company has classified evaluation and exploration assets as intangible in nature. Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon reserves.

Ownership in evaluation and exploration assets involves certain inherent risks, including geological, metal prices, operating costs, and permitting risks. Many of these risks are outside the Company's control. The ultimate recoverability of the amounts capitalized for the evaluation and exploration assets is dependent upon the delineation of economically recoverable ore reserves, obtaining the necessary financing to complete their development, obtaining the necessary permits to operate a mine, and realizing profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in its evaluation and exploration assets have been based on current and expected conditions. However, it is possible that changes could occur which could adversely affect management's estimates and may result in future write downs of evaluation and exploration assets carrying values.

Evaluation and exploration costs

Evaluation and exploration costs, other than those described above, are expensed as incurred until such time as mineral reserves are proven or probable, permits to operate the mineral resource property are received and financing to complete development has been obtained. Following confirmation of mineral reserves, receipt of permits to commence mining operations and obtaining necessary financing, evaluation and exploration costs are capitalized as deferred development expenditures included within equipment.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

k) *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For evaluation and exploration assets, indicators of impairment would include expiration of a right to explore, no budgeted or planned material expenditure in an area, or a decision to discontinue exploration in a specific area.

Impairment losses of continuing operations are recognized in net loss in those expense categories consistent with the function of the impaired asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years.

l) *Currency translation*

The presentation currency and the functional currency of the Company and each of its subsidiaries is the Canadian dollar.

The functional currency for each entity in the Company is determined as the currency of the primary economic environment in which it operates. Transactions other than those in the functional currency of the entity are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at year end exchange rates. Gains and losses on translation are included in net profit or loss for the year.

The functional currency of the entities in the Company has remained unchanged during the reporting year.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

m) *Equipment*

Equipment and vehicles are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognized within provisions. All items of equipment and vehicles are subsequently carried at depreciated cost less impairment losses, if any.

Depreciation is provided on all items of equipment and vehicles to write off the carrying value of items over their expected useful economic lives. Depreciation is provided on a straight line basis over the estimated useful lives of the equipment at the following annual rates:

- Computer Equipment 15%
- Office and Field Equipment 10% or 30%
- Software 100%
- Vehicles 25%

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

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

n) *Employee benefits*

Wages, salaries and annual vacation leave

Liabilities arising in respect of wages and salaries, vacation leave and any other employee benefits expected to be settled within twelve months of the financial position reporting date are measured at undiscounted amounts based on remuneration rates which are expected to be paid when the liabilities are settled. In respect of employees' services up to the financial position reporting date, wages and salaries are recognized in trade and other payables and other employee benefits including annual vacation leave are recognized in current provisions.

Employee and management bonus plans

A liability is recognized for the amount expected to be paid under the Company's bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Where the effect is material, the liabilities for bonus payments not expected to be settled within twelve months are discounted using a pre-tax risk-free rate, which most closely match the terms of maturity of the related liabilities.

Bonus liabilities expected to be settled within twelve months of the consolidated statement of financial position date are recognized in current provisions, and those that are not expected to settle within twelve months are recognized in non-current provisions.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

o) *Decommissioning liability*

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the year in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development / construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognized in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognized immediately in profit or loss.

p) *Contingencies*

Contingent assets

Contingent assets are not recognized in the financial statements but they are disclosed by way of a note if they are deemed probable.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. Contingent liabilities are recognized in the financial statements unless the possibility of an outflow of economic resources is considered remote, in which case they are disclosed in the notes to the consolidated financial statements.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Accounting Standards adopted during the period

Effective January 1, 2013, the following standards were adopted but have had no material impact on the financial statements:

- IFRS 10: New standard to establish principles for the presentation and preparation of consolidated financial statements, effective for annual periods beginning on or after January 1, 2013
- IFRS 11: New standard to account for the rights and obligations in accordance with a joint agreement, effective for annual periods beginning on or after January 1, 2013
- IFRS 12: New standard for the disclosure of interest in other entities not within the scope of IFRS 9 / IAS 39, effective for annual periods on or after January 1, 2013
- IFRS 13: New standard on the measurement and disclosure of fair value, effective for annual periods beginning on or after January 1, 2013
- IAS 27 (Amendment): As a result of the issue of IFRS 10, IFRS 11 and IFRS 12. IAS 27 deals solely with separate financial statements, effective for annual periods beginning on or after January 1, 2013
- IAS 28 (Amendment): New standard issued that supersedes IAS 28 (2003) to prescribe the application of the equity method to investments in associates and joint ventures, effective for annual periods beginning on or after January 1, 2013

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2014. Updates which are not applicable or are not consequential to the Company have been excluded thereof. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IAS 32 Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 with earlier adoption permitted.
- IFRS 9 Financial Instruments (“IFRS 9”) was issued November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with early adoption permitted.

(Expressed in Canadian Dollars)

4. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents are broken down as follows:

	December 31, 2013	December 31, 2012
Cash	**$ 10,866,946**	$ 18,064,569
Term deposits	**35,000**	35,000
	$ 10,901,946	$ 18,099,569

5. AMOUNTS RECEIVABLE

The Company's amounts receivable are broken down as follows:

	December 31, 2013	December 31, 2012
Harmonized sales tax receivable and value-added tax receivable	**$ 29,056**	$ 34,276
Other receivables	**40,289**	42,947
	$ 69,345	$ 77,223

6. LONG-TERM INVESTMENT

On April 30, 2012, the Company received 15,151,273 shares of Portex with a fair value of $909,076 in exchange for the sale of its wholly owned entities with business interests in Spain.

As at December 31, 2013, the Company recognized $1,060,589 as the fair value of the 15,151,273 common shares received from Portex (December 31, 2012 - $909,076). The change in fair value of $151,513 for the year ended December 31, 2013 is recognized as other comprehensive income (December 31, 2012 – $nil).

As at December 31, 2013

	Number of shares	Closing market price	Fair value
Portex Minerals Inc.	15,151,273	$ 0.07	$ 1,060,589

As at December 31, 2012

	Number of shares	Closing market price	Fair value
Portex Minerals Inc.	15,151,273	$ 0.06	$ 909,076

(Expressed in Canadian Dollars)

7. EQUIPMENT

The Company's equipment is broken down as follows:

	Computer equipment	Field equipment	Office equipment	Software	Vehicles	Total
Cost						
As at December 31, 2011	$ 13,598	$ 118,133	$ 18,019	$ 21,887	$ 172,685	**$ 344,322**
Additions	5,837	25,429	1,721	26,904	76,930	**136,821**
Balance as at December 31, 2012	**$ 19,435**	**$ 143,562**	**$ 19,740**	**$ 48,791**	**$ 249,615**	**$ 481,143**
Depreciation						
As at December 31, 2011	$ (10,508)	$ (96,837)	$ (12,012)	$ (21,887)	$ (119,346)	**$ (260,590)**
Charged for the year	(2,069)	(10,773)	(1,888)	(6,726)	(25,962)	**(47,418)**
Balance as at December 31, 2012	**$ (12,577)**	**$ (107,610)**	**$ (13,900)**	**$ (28,613)**	**$ (145,308)**	**$ (308,008)**
Net book value						
As at December 31, 2011	$ 3,090	$ 21,296	$ 6,007	$ -	$ 53,339	$ 83,732
As at December 31, 2012	**$ 6,858**	**$ 35,952**	**$ 5,840**	**$ 20,178**	**$ 104,307**	**$ 173,135**
Cost						
As at December 31, 2012	$ 19,435	$ 143,562	$ 19,740	$ 48,791	$ 249,615	**$ 481,143**
Additions	96,560	27,439	-	66,644	28,108	**218,751**
Disposals	-	-	(5,949)	-	-	**(5,949)**
Balance as at December 31, 2013	**$ 115,995**	**$ 171,001**	**$ 13,791**	**$ 115,435**	**$ 277,723**	**$ 693,945**
Depreciation						
As at December 31, 2012	$ (12,577)	$ (107,610)	$ (13,900)	$ (28,613)	$ (145,308)	**$ (308,008)**
Charged for the year	(9,349)	(20,471)	(1,627)	(51,742)	(37,585)	**(120,774)**
Eliminated on disposal	-	-	4,849		-	**4,849**
Balance as at December 31, 2013	**$ (21,926)**	**$ (128,081)**	**$ (10,678)**	**$ (80,355)**	**$ (182,893)**	**$ (423,933)**
Net book value						
As at December 31, 2012	$ 6,858	$ 35,952	$ 5,840	$ 20,178	$ 104,307	$ 173,135
As at December 31, 2013	**$ 94,069**	**$ 42,920**	**$ 3,113**	**$ 35,080**	**$ 94,830**	**$ 270,012**

During the year ended December 31, 2013, the Company disposed of office equipment with a net book value of $1,100 for cash proceed of $500.

(Expressed in Canadian Dollars)

8. EVALUATION AND EXPLORATION ASSETS

The Company's evaluation and exploration assets are broken down as follows:

	Balance as at December 31, 2011	Additions	Balance as at December 31, 2012	Additions	Balance as at December 31, 2013
Dominican Republic	**$ 1,247,000**	$ -	**$ 1,247,000**	$ -	**$ 1,247,000**

a) Dominican Republic – 100% owned

On August 5, 2009, the Company entered into a purchase agreement with Gold Fields Dominican Republic BVI Limited ("GFL") to regain full ownership of its gold-focused portfolio in the Dominican Republic. As consideration for GFL's interest in the joint venture projects, the Company issued 8,600,000 common shares and granted a 1.5% Net Smelter Royalty ("NSR") on the claims in favour of GFL.

The transaction was completed on November 18, 2009 with the issuance of the shares at an estimated fair value of $1,247,000.

b) Eastern Dominican Republic – 51% owned

The Company also has earned a majority interest from Energold Drilling Corp. in two additional properties that were formally part of a former joint venture with GFL. These properties are also subject to a 1.5% NSR in favour of GFL and an additional 1% NSR in favour of Canyon Research Corp. and Battle Mountain (Dominican Republic) Inc. up to an aggregate maximum royalty of $1,000,000.

9. EVALUATION AND EXPLORATION COSTS

The evaluation and exploration costs of the Company during the year ended December 31, 2013 and 2012 are broken down as follows:

	Dominican Republic	
	For the year ended	
	December 31, 2013	December 31, 2012
Depreciation	**$ 20,471**	$ 10,773
Drilling	**2,159,134**	1,933,891
Field office administration	**1,089,797**	729,569
Geological	**1,445,507**	467,970
Sample analysis	**530,021**	274,504
Exploration costs for the year	**$ 5,244,930**	$ 3,416,707
Cumulative exploration costs, beginning of year	**12,579,307**	9,162,600
Cumulative exploration costs, end of year	**$ 17,824,237**	$ 12,579,307

(Expressed in Canadian Dollars)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities are broken down as follows:

	December 31, 2013	December 31, 2012
Trade payables	**$ 281,478**	$ 605,316
Accrued liabilities	**106,167**	187,183
	$ 387,645	$ 792,499

11. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued share capital

At December 31, 2013, the Company had 143,980,044 common shares issued and outstanding with a value of $37,253,320 (December 31, 2012 – 143,980,044 with a value of $37,253,320).

During the year ended December 31, 2012:

i. On March 2, 2012, the Company completed a non-brokered private placement of 6,600,000 units for gross proceeds of $660,000. Each unit consisted of one common share and one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of $0.15 per share for a period of 24 months from the date of issuance.

   For accounting purposes, the Company estimated the grant date fair value of warrants issued with the private placement, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.11%, an expected life of 2 years, an expected volatility of 87% and an expected dividend yield of 0%, which totaled $191,268, and recorded this value in warrants reserve. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the common shares. The remaining balance of $468,732 was recorded as common shares.

   In addition, the Company incurred $24,050 in share issuance costs.

ii. On June 20, 2012, the Company completed a bought deal private placement with Dundee Securities Ltd. on behalf of a syndicate of underwriters including Stifel Nicolaus Canada Inc., Canaccord Genuity Corp. and Raymond James Ltd. (the "Underwriters") for 14,605,000 common shares at a price per share of $0.45 for total gross proceeds of $6,572,250. In connection with this private placement, the Underwriters were granted 876,300 warrants with an exercise price of $0.45. The warrants will expire on June 20, 2014.

   For accounting purposes, the Company estimated the grant date fair value of warrants issued with the private placement, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.10%, an expected life of 2 years, an expected volatility of 165.39% and an expected dividend yield of 0%, which totaled $480,900, and recorded this value as share issue cost.

   In addition, the Company incurred $489,959 in share issuance costs.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL

b) Issued share capital

iii. On August 21, 2012, the Company completed a bought deal private placement with Dundee Securities Ltd. on behalf of a syndicate of underwriters including Stifel Nicolaus Canada Inc., Clarus Securities Inc., GMP Securities L.P. and Raymond James Ltd. (the "Underwriters") for 12,000,000 common shares at a price per share of $1.25 for total gross proceeds of $15,000,000. In connection with this private placement, the Underwriters were granted 720,000 warrants with an exercise price of $1.25. The warrants will expire on August 21, 2014.

For accounting purposes, the Company estimated the grant date fair value of warrants issued with the private placement, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.20%, an expected life of 2 years, an expected volatility of 168.83% and an expected dividend yield of 0%, which totaled $1,095,783, and recorded this value as share issue cost.

In addition, the Company incurred $1,062,761 in share issuance costs.

iv. The Company received various options exercises during the year ended December 31, 2012 resulting in the issuance of 2,359,998 common shares for proceeds of $474,400. In addition, the Company has reclassified the grant date fair value of the exercised options of $365,961 from stock options reserve to share capital.

v. The Company received various warrant exercises during the year ended December 31, 2012 resulting in the issuance of 4,906,445 common shares for proceeds of $775,400. In addition, the Company has reclassified the grant date fair value of the exercised warrants of $210,514 from warrants reserve to share capital.

c) Warrants

The changes in warrants during the years ended December 31, 2013 and 2012 are as follows:

	December 31, 2013			December 31, 2012		
	Number outstanding		**Weighted average exercise price**	Number outstanding		Weighted average exercise price
Outstanding, beginning of year	**3,289,855**	**$**	**0.46**	1,238,250	$	0.15
Issued	-		-	8,196,300		0.28
Exercised	-		-	(4,906,445)		0.16
Expired	-		-	(1,238,250)		0.15
Outstanding, end of year	**3,289,855**	**$**	**0.46**	3,289,855	$	0.46

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

c) Warrants

The following warrants were outstanding at December 31, 2013:

Grant date	Expiry date	Warrants outstanding		Exercise price		Estimated grant date fair value	Weighted average remaining contractual life (in years)
March 2, 2012	March 2, 2014 (1)	1,825,000	$	0.15	$	52,890	0.17
June 20, 2012	June 20, 2014	744,855	$	0.45		408,766	0.47
August 21, 2012	August 21, 2014	720,000	$	1.25		1,095,783	0.64
		3,289,855			**$**	**1,557,439**	**0.34**

(1) See note 19.

d) Stock options

Under the Company's stock option plan, the board of directors may grant options for the purchase of up to a total of 10% of the total number of issued and outstanding common shares of the Company. Options granted under the plan may vest over a period of time at the discretion of the board of directors. Under the plan, the exercise price of each option equals the market price of the Company's stock as determined on the date of grant. The options can be granted for a maximum term of 10 years and vest at the discretion of the board of directors.

Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value of the Company's common shares on the date of the grant. The changes in options during the years ended December 31, 2013 and 2012 are as follows:

	December 31, 2013			December 31, 2012		
	Number outstanding		**Weighted average exercise price**	Number outstanding		Weighted average exercise price
Outstanding, beginning of year	**7,586,669**	**$**	**0.42**	8,830,000	$	0.23
Granted	**5,535,000**		**0.38**	3,130,000		0.65
Exercised	**-**		**-**	(2,359,998)		0.20
Expired	**(225,000)**		**0.48**	(1,975,000)		0.22
Forfeited	**(68,339)**		**0.50**	(38,333)		0.20
Outstanding, end of year	**12,828,330**	**$**	**0.40**	7,586,669	$	0.42

<u>During the year ended December 31, 2013:</u>

- On March 11, 2013, the Company granted 2,625,000 options with an exercise price of $0.50 to certain officers, directors, employees and consultants. The options are exercisable for a period of five years. One-third vest six months from the date of grant and one-third will vest every six months thereafter.
- On May 22, 2013, the Company granted 500,000 stock options with an exercise price of $0.35 to a director. The options are exercisable for a period of five years. One-third vest six months from the date of grant and one-third will vest every six months thereafter.
- On December 19, 2013, the Company granted 2,410,000 stock options with an exercise price of $0.25 to certain officers, directors, employees and consultants. The options are exercisable for a period of five years. One-third vest six months from the date of grant and one-third will vest every six months thereafter.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

d) Stock options (continued)

During the year ended December 31, 2012:

- On May 31, 2012, the Company granted 2,660,000 options with an exercise price of $0.56 to certain officers, directors and employees. The options are exercisable for a period of five years. One-third of the options granted vest immediately at the date of the grant. One-third vest six months from the date of grant and one-third vest twelve months from the date of grant.
- On June 1, 2012, the Company granted 170,000 options with an exercise price of $0.68 to certain employees. The options are exercisable for a period of five years. One-third of the options granted vest immediately at the date of the grant. One-third vest six months from the date of grant and one-third vest twelve months from the date of grant.
- On June 6, 2012, the Company granted 50,000 options with an exercise price of $0.70 to its investor relations consultant. The options are exercisable for a period of five years. A quarter of the options granted vest three months from the date of grant and a quarter will vest every three months thereafter.
- On September 11, 2012, the Company granted 250,000 options with an exercise price of $1.56 to an employee. The options are exercisable for a period of five years. A quarter of the options granted vest immediately at the date of the grant and a quarter will vest every three months thereafter.

The following summarizes information about stock options outstanding and exercisable at December 31, 2013:

Grant date	Expiry date	Options outstanding	Options exercisable	Exercise price	Estimated grant date fair value	Weighted average remaining contractual life (in years)
April 2, 2009	April 1, 2014 (1)	75,000	75,000	$ 0.100	$ 7,275	0.25
June 1, 2010	June 1, 2015	200,000	200,000	$ 0.140	21,522	1.42
July 16, 2010	July 16, 2015	400,000	400,000	$ 0.140	54,233	1.54
September 24, 2010	September 24, 2015	300,000	300,000	$ 0.145	45,874	1.73
January 20, 2011	January 20, 2016	200,000	200,000	$ 0.360	61,700	2.05
March 1, 2011	March 1, 2016	1,000,000	750,000	$ 0.420	359,521	2.17
August 24, 2011	August 24, 2016	2,225,000	2,225,000	$ 0.200	299,775	2.65
May 31, 2012	May 31, 2017	2,623,335	2,623,335	$ 0.560	1,594,038	3.42
June 1, 2012	June 1, 2017	113,334	113,334	$ 0.680	74,529	3.42
September 11, 2012	September 4, 2017	250,000	250,000	$ 1.560	376,726	3.68
March 8, 2013	March 8, 2018	2,531,661	858,331	$ 0.500	905,281	4.19
May 22, 2013	May 22, 2018	500,000	166,667	$ 0.350	131,412	4.39
December 19, 2013	December 19, 2018	2,410,000	-	$ 0.250	501,194	4.97
		12,828,330	**8,161,667**		**$ 4,433,080**	**3.50**

(1) See note 19.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

d) Stock options (continued)

The estimated grant date fair value of the options granted during the years ended December 31, 2013 and 2012 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Number of options granted	**5,535,000**	3,130,000
Risk-free interest rate	**1.42%**	1.19%
Expected annual volatility	**137%**	139%
Expected life	**5.00**	5.00
Expected dividend yield	**0.00%**	0.00%
Grant date fair value per option	**$ 0.28**	$ 0.68
Share price at grant date	**$ 0.33**	$ 0.77

During the years ended December 31, 2013 and 2012, the Company recognized share-based payments expense of $1,275,282 and $1,947,947, respectively. For the years ended December 31 2013 and 2012, share-based payments expense consists of the following:

	For the year ended December 31, 2013	For the year ended December 31, 2012
For services in respect of:		
Directors' fees	**$ 411,372**	$ 565,917
Investor relations	**14,844**	29,337
Management fees	**736,559**	1,195,968
Mineral property expenditures	**3,034**	16,694
Salaries and wages	**109,473**	140,031
	$ 1,275,282	$ 1,947,947

e) Earnings (loss) per share

The Company calculated the basic earnings (loss) per share by using the weighted-average number of shares outstanding during the period. The diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the period. In determining the weighted average number of common shares outstanding during the period for the diluted loss per share, warrants and options are not included as the impact would be anti-dilutive.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

e) Earnings (loss) per share (continued)

	For the year ended	
	December 31, 2013	December 31, 2012
Basic earnings (loss) per share:		
Continuing operations:		
Loss for the year from continuing operations	$ **(8,006,900)**	$ (6,887,492)
Weighted average number of common shares outstanding	**143,980,044**	123,829,687
Basic loss per share:	$ **(0.06)**	$ (0.06)
Discontinued operations:		
Income (loss) for the year from discontinued operations	$ **-**	$ 668,355
Weighted average number of common shares outstanding	**143,980,044**	123,829,687
Basic earnings per share:	$ **-**	$ 0.01
Net loss:		
Net loss for the year	$ **(8,006,900)**	$ (6,219,137)
Weighted average number of common shares outstanding	**143,980,044**	123,829,687
Basic loss per share:	$ **(0.06)**	$ (0.05)
Diluted earnings (loss) per share:		
Continuing operations:		
Loss for the year from continuing operations	$ **(8,006,900)**	$ (6,887,492)
Weighted average number of common shares outstanding	**143,980,044**	123,829,687
Diluted loss per share:	$ **(0.06)**	$ (0.06)
Discontinued operations:		
Income (loss) for the year from discontinued operations	$ **-**	$ 668,355
Weighted average number of common shares outstanding	**143,980,044**	128,263,394
Diluted earnings per share:	$ **-**	$ 0.01
Net loss:		
Net loss for the year	$ **(8,006,900)**	$ (6,219,137)
Weighted average number of common shares outstanding	**143,980,044**	123,829,687
Diluted loss per share:	$ **(0.06)**	$ (0.05)

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS AND BALANCES

The financial statements include the accounts of GoldQuest Mining Corp. and its subsidiaries listed in the following table:

		Equity Onwership as at	
Name	**Country of Incorporation**	**December 31, 2013**	**December 31, 2012**
GoldQuest Mining (BVI) Corp	British Virgin Islands	100%	100%
Goldquest Dominicana SRL (formerly known as INEX Ingeniería y Exploración S.A.)	Dominican Republic	100%	100%

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

a) Related Party Transactions

The Company's related parties as defined by IAS 24, *Related Party Disclosures*, include the Company's subsidiaries (above), and the following directors, executive officers, key management personnel, and enterprises which are controlled by these individuals:

Related Party	Relationship
William Fisher	Executive Chairman
Frank Balint	Director
Patrick Michaels	Director
Florian Siegfried	Director
Julio Espaillat	Director, President and CEO
Paul Robertson	CFO
Quantum Advisory Partners LLP	A partnership in which the CFO is a partner
Jeremy Niemi	Vice President, Exploration
Felix Mercedes	Country Manager, Dominican Republic

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

a) Related Party Transactions (continued)

Total compensation of key company personnel for the years ended December 31, 2013 and 2012 is as follows:

		For the year ended	
		December 31, 2013	December 31, 2012
Directors' fees		$ 71,747	$ 82,000
Management fees	(1)	844,097	395,782
Professional fees	(2)	77,894	75,623
Share-based compensation		1,147,940	1,753,340
		$ 2,141,678	$ 2,306,744

1) During the year ended December 31, 2013, the Company paid $88,000 (December 31, 2012 - $84,000) to Quantum Advisory Partners LLP, a partnership in which the CFO is an incorporated partner, for management fees.

2) Professional fees relate to amounts paid to Quantum Advisory Partners LLP, a partnership in which the CFO is an incorporated partner, for other professional services including corporate secretarial, transaction support and tax compliance.

b) Related party balances

The balances due to the Company's directors and officer included in accounts payables and accrued liabilities were $86,189 as at December 31, 2013 (December 31, 2012 – $154,284) , which were paid subsequent to year end. These amounts are unsecured, non-interest bearing and payable on demand.

13. COMMITMENTS AND CONTINGENCIES

a) Commitments

The Company is a party to certain management contracts. These contracts contain clauses requiring that $1,044,000 be paid upon a change of control of the Company. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements.

b) Contingencies

The Company's exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

(Expressed in Canadian Dollars)

14. SEGMENTED INFORMATION

The Company has one reportable segment, being the evaluation and exploration of mineral exploration properties in one geographic region: Dominican Republic. The Company's assets and liabilities are as follows:

	Canada	Dominican Republic	Spain	Total
As at December 31, 2013				
Evaluation and exploration assets	$ -	$ 1,247,000	$ -	**$ 1,247,000**
Long-term investment	1,060,589	-	-	**1,060,589**
Equipment	152,752	117,260	-	
Other assets	10,838,829	309,425	-	**11,148,254**
Liabilities	(232,910)	(154,735)	-	**(387,645)**
	$ 11,819,260	**$ 1,518,950**	**$ -**	**$ 13,068,198**
As at December 31, 2012				
Evaluation and exploration assets	$ -	$ 1,247,000	$ -	**$ 1,247,000**
Long-term investment	909,076	-		**909,076**
Equipment	52,180	120,955		**173,135**
Other assets	18,018,230	363,373	-	**18,381,603**
Liabilities	(720,159)	(72,340)	-	**(792,499)**
	$ 18,259,327	**$ 1,658,988**	**$ -**	**$ 19,918,315**

	Canada	Dominican Republic	Spain	Total
Comprehensive loss:				
For the year ended December 31, 2013	$ 5,871,700	$ 1,983,687	$ -	**$ 7,855,387**
For the year ended December 31, 2012	$ 5,368,937	$ 1,518,555	$ (668,355)	**$ 6,219,137**

(Expressed in Canadian Dollars)

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the evaluation and exploration of its mineral exploration properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of share capital as well as cash and cash equivalents.

There were no changes to the Company policy for capital management during the year ended December 31, 2013.

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 its capital structure, the Company may issue new shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents and short-term investments. In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company and its subsidiaries are not subject to any externally imposed capital requirements.

The Company's investment policy is to invest its excess cash in very low risk financial instruments such as term deposits or by holding funds in high yield savings accounts with major Canadian banks. By using this strategy the Company preserves its cash resources and is able to marginally increase these resources through the yields on these investments. The Company's financial instruments are exposed to certain financial risks, which include currency risk, credit risk, liquidity risk and interest rate risk.

The Company expects that its current capital resources will be sufficient to fund its present operational commitments and working capital needs for the coming twelve months.

16. FINANCIAL INSTRUMENTS

a) Fair value

The carrying values of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of those financial instruments. Long-term investment is determined by the closing market price of the securities held by the Company.

As at December 31, 2013:

	Loans and receivables and other liabilities	Assets at fair value through profit and loss	Availabe-for-sale assets	Total
Cash and cash equivalents	$ 10,866,946	$ 35,000	$ -	$ 10,901,946
Amounts receivable	40,289	-	-	40,289
Long-term investment	-	-	1,060,589	1,060,589
Accounts payable and accrued liabilities	387,645	-	-	387,645

As at December 31, 2012:

	Loans and receivables and other liabilities	Assets at fair value through profit and loss	Availabe-for-sale assets	Total
Cash and cash equivalents	$ 18,064,569	$ 35,000	$ -	$ 18,099,569
Amounts receivable	42,947	-	-	42,947
Long-term investment	-	-	909,076	909,076
Accounts payable and accrued liabilities	792,499	-	-	792,499

(Expressed in Canadian Dollars)

16. FINANCIAL INSTRUMENTS (continued)

a) Fair value (continued)

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

Level 2: Inputs other than quoted prices included in 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: Inputs that are not based on observable market data.

As at December 31, 2013 and 2012, the financial instruments recorded at fair value on the consolidated statement of financial position are cash equivalents which are measured using Level 2 of the fair value hierarchy and long term investments measured using Level 1 of the fair value hierarchy.

b) Financial risk management

Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents. Cash and cash equivalents have been placed on deposit with major Canadian and Dominican financial institutions.

The risk arises from the non-performance of counterparties of contractual financial obligations. The Company's cash and cash equivalents are mainly held through large Canadian institutions and at December 31, 2013 are mainly held in savings accounts and accordingly credit risk in minimized.

The Company manages credit risk, in respect of cash and cash equivalents, by purchasing term deposits held at a major Canadian financial institution.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as the majority of the amounts are held at a single Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

		December 31, 2013
Held at major Canadian financial institution:		
Cash	$	10,626,245
Short-term money market instruments		35,000
		10,661,245
Held at major Dominican Republic financial institution:		
Cash	**$**	**240,701**
Total cash and cash equivalents	**$**	**10,901,946**

The credit risk associated with cash and cash equivalents is minimized by ensuring the majority of these financial assets are held with major Canadian and Dominican financial institutions with strong investment-grade ratings by a primary rating agency.

16. FINANCIAL INSTRUMENTS (continued)

b) Financial risk management

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

The Company's expected source of cash flow in the upcoming year will be through equity financings.

The Company maintained sufficient cash and cash equivalents at December 31, 2013 in the amount of $10,901,946 (December 31, 2012 - $18,099,569), in order to meet short-term business requirements. At December 31, 2013, the Company had accounts payable and accrued liabilities of $387,645 (December 31, 2012 - $792,499). All accounts payable and accrued liabilities are current.

Market risk

The significant market risks to which the Company is exposed are interest rate risk, currency risk and commodity price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash and cash equivalents are held mainly in high yield saving accounts and term deposits and therefore there is currently minimal interest rate risk. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of December 31, 2013.

The Company's interest rate risk principally arises from the interest rate impact of interest earned on cash and cash equivalents. A 1% change in interest rates on cash and cash equivalents outstanding at December 31, 2013 would result in a $109,020 change to the Company's net loss for the year ended December 31, 2013 (December 31, 2012 - $180,996).

Currency risk

The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company's cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and long-term investment are held in Canadian Dollars ("CAD"), US Dollars ("USD") and Dominican Pesos ("DOP"); therefore, USD and DOP accounts are subject to fluctuation against the Canadian dollar.

The Company had the following balances in foreign currency as at December 31, 2013:

	in CAD	**in USD**	**in DOP**
Cash and cash equivalents	5,927,199	4,640,883	475,167
Amounts receivable	38,622	-	67,236
Long-term investment	1,060,589	-	-
Accounts payable and accrued liabilities	(226,363)	(6,122)	(6,239,254)
	6,800,047	**4,634,761**	**(5,696,851)**
Rate to convert to $1.00 CAD	1.000	0.9351	40.3226
Equivalent to Canadian dollars	**6,800,047**	**4,956,413**	**(141,282)**

(Expressed in Canadian Dollars)

16. FINANCIAL INSTRUMENTS (continued)

b) Financial risk management (continued)

Currency risk (continued)

Based on the above net exposures as at December 31, 2013, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the CAD against the USD and DOP would have had the following impact:

	Additional foreign exchange gain (loss) (before tax) (in CAD)		
	USD	DOP	Total
For the year ended December 31, 2013			
If CAD appreciated by 10%	**$ 495,641**	**$ (14,128)**	**$ 481,513**
If CAD depreciated by 10%	**(495,641)**	**14,128**	**(481,513)**

The Company had the following balances in foreign currency as at December 31, 2012:

	in CAD	in USD	in DOP
Cash and cash equivalents	8,337,514	9,750,121	1,904,953
Amounts receivable	33,086	9,011	35,682
Long-term investment	909,076	-	-
Accounts payable and accrued liabilities	(324,483)	(397,026)	(2,928,729)
	8,955,193	**9,362,106**	**(988,094)**
Rate to convert to $1.00 CAD	1.000	1.0034	40.4858
Equivalent to Canadian dollars	**8,955,193**	**9,330,275**	**(24,406)**

Based on the above net exposures as at December 31, 2012, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the CAD against the USD and DOP would have had the following impact:

	Additional foreign exchange gain (loss) (before tax) (in CAD)		
	USD	DOP	Total
For the year ended December 31, 2012			
If CAD appreciated by 10%	**$ 933,027**	**$ (2,441)**	**$ 930,586**
If CAD depreciated by 10%	**(933,027)**	**2,441**	**(930,586)**

16. FINANCIAL INSTRUMENTS (continued)

b) Financial risk management (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk, financial market risk, or currency risk.

As at December 31, 2013, the Company held 15,151,273 common shares (December 31, 2012 – 15,151,273 common shares) of Portex which is publicly traded on the Canadian National Stock Exchange. A 10% change in share price of Portex's shares at December 31, 2013 would result in a $106,059 change to the Company's comprehensive loss for the year ended December 31, 2013 (December 31, 2012 - $90,908).

Commodity risk

The Company is exposed to price risk with respect to commodity prices, specifically gold. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for these commodities, the level of interest rates, the rate of inflation, investment decision by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. As the Company does not have production assets, management believes this risk is minimal.

(Expressed in Canadian Dollars)

17. DISPOSITION OF WHOLLY-OWNED ENTITIES

On April 30, 2012, the Company completed the sale of its wholly-owned entities that held the exploration licenses for the Toral and Lago properties in Spain in exchange for 15,151,273 common shares in Portex Minerals Inc. ("Portex").

The major classes of assets and liabilities of the discontinued operations as at April 30, 2012 are as follows:

		April 30, 2012
ASSETS		
Cash and cash equivalents	$	**3,425**
Amounts receivable		**91,213**
Prepaid expenses		**1,746**
Deposits		**15,267**
Equipment		**28,111**
		139,762
LIABILITIES		
Accounts payable and accrued liabilities		**32,742**
Current portion of lease obligations		**6,242**
		38,984
NET ASSETS	**$**	**100,778**

As a result of the transaction, the Company recognized a gain on disposal of $707,997 which was determined as follows:

Consideration received		
Fair value of Portex shares	$	909,076
Less: Net assets disposed		(100,778)
Gain before transaction costs		**808,298**
Less: Transaction costs		**(100,301)**
Gain on disposal	**$**	**707,997**

The fair value of the Portex's shares was determined by the closing market price of Portex's shares as at April 30, 2012 ($0.06 per share).

As a result of the completion of the transaction, the Company reclassified the net loss from its Spanish operations of $39,642 for the year ended December 31, 2012 as loss for the year from discontinued operations.

(Expressed in Canadian Dollars)

17. DISPOSITION OF WHOLLY-OWNED ENTITIES (continued)

The breakdown of the loss for the year ended December 31, 2012 from discontinued operations is as follows:

		December 31, 2012
EXPENSES		
Depreciation	$	3,789
Evaluation and exploration costs		22,026
Foreign exchange loss		4,788
General and administrative		9,097
		39,700
OTHER INCOME		
Interest income		(58)
LOSS FROM DISCONTINUED OPERATIONS	**$**	**39,642**

The Company recognized a net gain from discontinued operations of $668,355 for the years ended December 31, 2012.

The net cash flows used in discontinued operations during the year ended December 31, 2012 was $121,954.

The breakdown of the net cash flows used in discontinued operations loss for the year ended December 31, 2012 from discontinued operations is as follows:

		December 31, 2012
Net cash flows (used in) operating activities	$	(18,442)
Net cash flows (used in) financing activities		(3,211)
Net cash flows (used in) investing activities		(100,301)
Net cash flows (used in) discontinued operations	**$**	**(121,954)**

(Expressed in Canadian Dollars)

18. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

		2013		2012
Earnings (loss) for the year	$	(8,006,900)	$	(6,219,137)
Expected income tax (recovery)	$	(2,062,000)	$	(1,624,000)
Change in statutory, foreign tax, foreign exchange rates and other		(244,000)		(85,000)
Permanent Difference		1,162,000		(301,000)
Sale of discontinued assets		-		(189,000)
Change in unrecognized deductible temporary differences		1,144,000		2,199,000
Total income tax expense (recovery)	**$**	**-**	$	-

The Canadian income tax rate declined/increased during the year due to changes in the law that educed/increased corporate income tax rates in Canada/British Columbia.

The significant components of the Company's deferred tax assets and liabilities are as follows:

		2013		2012
Deferred Tax Assets (liabilities)				
Exploration and evaluation assets	$	(337,000)	$	(337,000)
Marketable Securities		(20,000)		-
Non-capital losses		357,000		337,000
Net deferred tax liability	**$**	**-**	**$**	-

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

		2013	Expiry Date Range		2012	Expiry Date Range
Temporary Differences						
Exploration and evaluation assets	$	3,728,000	No expiry date	$	204,000	No expiry date
Property and equipment		255,000	No expiry date		-	No expiry date
Share issue costs		998,000	2034 to 2036		2,704,000	2033 to 2036
Non-capital losses available for future period		11,310,000	2014 to 2033		8,593,000	2014 to 2032
Canada		8,684,000	2014 to 2033		7,097,000	2014 to 2032
Dominican Republic		2,626,000	2015 to 2023		1,496,000	2015 to 2022

Tax attributes are subject to review, and potential adjustment, by tax authorities.

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2013:

- 1,700,000 warrants were exercised for proceeds of $255,000;
- 75,000 stock options were exercised for proceeds of $7,500;
- 125,000 warrants with expiry date of March 2, 2014 expired unexercised; and
- 41,667 stock options granted to employees were cancelled.