Loncor
RESOURCES INC.

# CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2013**

**(Expressed in U.S. dollars)**

# CONTENTS

## Management’s Responsibility for Financial Statements

The consolidated financial statements and the notes thereto have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the management of Loncor Resources Inc. (the “Company”). The financial information presented elsewhere in the Management’s Discussion and Analysis is consistent with the data that is contained in the consolidated financial statements. The consolidated financial statements, where necessary, include amounts which are based on the best estimates and judgments of management.

In order to discharge management’s responsibility for the integrity of the consolidated financial statements, the Company maintains a system of internal controls. These controls are designed to provide reasonable assurance that the Company’s assets are safeguarded, transactions are executed and recorded in accordance with management’s authorization, proper records are maintained and relevant and reliable information is produced. These controls include maintaining quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and ensuring that there is proper accountability for performance within appropriate and well-defined areas of responsibility. The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with securities legislation and conflict of interest rules.

The Board of Directors is responsible for overseeing management’s performance of its responsibilities for financial reporting and internal control. The Audit Committee, which is composed of non-executive directors, meets with management as well as the external auditors to ensure that management is properly fulfilling its financial reporting responsibilities to the Directors who approve the consolidated financial statements. The external auditors have full and unrestricted access to the Audit Committee to discuss the scope of their audits, the adequacy of the system of internal controls and review reporting issues.

The consolidated financial statements for the year ended December 31, 2013 have been audited by BDO Canada LLP, chartered accountants and licensed public accountants, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States).

| | |
|---|---|
| (Signed) *“Peter N. Cowley”* | (Signed) “*Donat K. Madilo”* |
| Peter N. Cowley | Donat K. Madilo |
| President and Chief Executive Officer | Chief Financial Officer |

Toronto, Canada

March 31, 2014

## Independent Auditor's Report

### To the Shareholders of Loncor Resources Inc.

We have audited the accompanying consolidated financial statements of Loncor Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of comprehensive (loss) income, changes in equity, and cash flows for each of the years ended December 31, 2013, December 31, 2012, and December 31, 2011,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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Loncor Resources Inc. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years ended December 31, 2013, December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates the Company produced a net loss of $27,224,451 for the year ended December 31, 2013 and as of that date the Company's accumulated deficit was $52,771,536. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that casts substantial doubt on the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO Canada LLP

Chartered Accountants,
Licensed Public Accountants

Toronto, Canada
March 31, 2014

**Loncor Resources Inc.**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**(Expressed in U.S. dollars)**

| | Notes | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | 324,928 | 10,741,699 |
| Advances receivable | 5 | 388,763 | 152,022 |
| Due from related parties | 6 | 41,946 | 17,760 |
| Prepaid expenses and deposits | | 88,560 | 358,309 |
| **Total Current Assets** | | **844,197** | **11,269,790** |
| | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 7 | 444,486 | 749,243 |
| Exploration and evaluation assets | 8 | 30,893,458 | 48,255,201 |
| Intangible assets | 9 | 1 | 1 |
| **Total Non-Current Assets** | | **31,337,945** | **49,004,445** |
| | | | |
| **Total Assets** | | **32,182,142** | **60,274,235** |
| | | | |
| **Liabilities and Shareholders' Equity** | | | |
| **Current Liabilities** | | | |
| Accounts payable | 11 | 261,299 | 976,542 |
| Accrued liabilities | | 307,535 | 208,143 |
| Due to related parties | 6 | 5,088 | - |
| Employee retention allowance | 17 | 629,554 | 490,280 |
| **Total Current Liabilities** | | **1,203,476** | **1,674,965** |
| | | | |
| **Deferred taxes** | 18 | - | 813,138 |
| **Total Liabilities** | | **1,203,476** | **2,488,103** |
| | | | |
| **Commitments** | 14 | | |
| | | | |
| **Shareholders' Equity** | | | |
| Share capital | 12 | 75,715,014 | 75,715,014 |
| Reserves | | 8,035,188 | 7,618,203 |
| Deficit | | (52,771,536) | (25,547,085) |
| **Total Shareholders' Equity** | | **30,978,666** | **57,786,132** |
| **Total Liabilities and Shareholders' Equity** | | **32,182,142** | **60,274,235** |
| | | | |
| **Common shares** | | | |
| Authorized | | Unlimited | Unlimited |
| Issued and outstanding | | 73,439,732 | 73,439,732 |

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

Approved and authorized for issue by the Board of Directors on March 24, 2014.
Signed on behalf of the Board of Directors by:

/s/ Peter N. Cowley

Peter N. Cowley
Director

/s/ Arnold T. Kondrat

Arnold T. Kondrat
Director

**Loncor Resources Inc.**

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

**(Expressed in U.S. dollars)**

| | | For the years ended | | |
|---|---|---|---|---|
| | Notes | **December 31, 2013** | December 31, 2012 | December 31, 2011 |
| | | **$** | $ | **$** |
| **Expenses** | | | | |
| Consulting, management and professional fees | | 233,092 | 673,277 | 1,191,315 |
| Employee benefits | | 1,054,627 | 993,835 | 1,015,040 |
| Office and sundry | | 366,713 | 281,997 | 375,835 |
| Compensation expense-share-based payment | 13 | 259,559 | 484,897 | 1,671,475 |
| Travel and promotion | | 73,037 | 226,310 | 328,439 |
| Depreciation | | 35,193 | 30,517 | 13,508 |
| Interest and bank expenses | | 3,185 | 1,156 | 1,066 |
| Impairment of exploration and evaluation assets | 8 | 25,801,443 | - | - |
| Foreign exchange loss | | 252,111 | 185,099 | 1,896 |
| | | **(28,078,960)** | **(2,877,088)** | **(4,598,574)** |
| **Interest income** | | 41,371 | 82,324 | 109,697 |
| **Gain on derivative financial instruments** | 12b | - | 768,264 | 5,215,060 |
| | | | | |
| **(Loss) Income before income tax** | | **(28,037,589)** | **(2,026,500)** | **726,183** |
| | | | | |
| Income tax recovery (expense) | | 813,138 | (55,323) | (193,023) |
| | | | | |
| **Comprehensive (loss) income for the year** | | **(27,224,451)** | **(2,081,823)** | **533,160** |
| | | | | |
| (Loss) earnings per share, basic and diluted | 12c | (0.37) | (0.03) | 0.01 |

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

**Loncor Resources Inc.**

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**(Expressed in U.S. dollars)**

| | Notes | Common shares | | Reserves | Deficit | Total Shareholders' equity |
|---|---|---|---|---|---|---|
| | | Number of shares | Amount | | | |
| **Balance at January 1, 2011** | | **47,417,745** | **$ 37,035,494** | **$ 3,421,685** | **$ (23,998,422)** | **$ 16,458,757** |
| Income for the year | | - | - | - | 533,160 | 533,160 |
| Issued share capital | | 10,200,000 | 24,159,362 | - | - | 24,159,362 |
| Issuance costs | | - | (1,444,127) | - | - | (1,444,127) |
| Compensation option exercises | | 343,994 | 596,614 | (383,990) | - | 212,624 |
| Warrants issued | | - | (835,811) | 835,811 | - | - |
| Share-based payments | 13 | - | - | 2,882,584 | - | 2,882,584 |
| Warrants exercised | | 210,996 | 533,187 | - | - | 533,187 |
| **Balance at December 31, 2011** | | **58,172,735** | **$ 60,044,719** | **$ 6,756,090** | **$ (23,465,262)** | **$ 43,335,547** |
| Loss for the year | | - | - | - | (2,081,823) | (2,081,823) |
| Issued share capital | 12a | 14,095,000 | 15,135,704 | - | - | 15,135,704 |
| Issuance costs | | - | (1,106,212) | - | - | (1,106,212) |
| Compensation option exercises | 12a | 47,998 | 100,531 | (41,699) | - | 58,832 |
| Warrants issued | 12b | - | (159,409) | 159,409 | - | - |
| Share-based payments | 13 | - | - | 744,403 | - | 744,403 |
| Warrants exercised | | 1,123,999 | 1,699,681 | - | - | 1,699,681 |
| **Balance at December 31, 2012** | | **73,439,732** | **$ 75,715,014** | **$ 7,618,203** | **$ (25,547,085)** | **$ 57,786,132** |
| | | | | | | |
| Loss for the period | | - | - | - | (27,224,451) | (27,224,451) |
| Share-based payments | 13 | - | - | 416,985 | - | 416,985 |
| **Balance at December 31, 2013** | | **73,439,732** | **$ 75,715,014** | **$ 8,035,188** | **$ (52,771,536)** | **$ 30,978,666** |

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

**Loncor Resources Inc.**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(Expressed in U.S. dollars)**

| | | For the years ended | | |
|---|---|---|---|---|
| | Notes | December 31, 2013 | December 31, 2012 | December 31, 2011 |
| | | $ | $ | $ |
| **Cash flows from operating activities** | | | | |
| (Loss) income for the year | | (27,224,451) | (2,081,823) | 533,160 |
| Adjustments to reconcile (loss) income to net cash used in operating activities | | | | |
| Depreciation | | 35,193 | 30,517 | 13,508 |
| Share-based payments - employee compensation | 13 | 259,559 | 484,897 | 1,671,475 |
| Share-based payments - consultant fees | 13 | 2,393 | 75,098 | 567,699 |
| Employee retention allowance | 17 | 76,316 | 72,560 | 73,996 |
| Impairment of exploration and evaluation assets | 8 | 25,801,443 | - | - |
| Income tax (recovery) expense | | (813,138) | 55,323 | 193,023 |
| (Gain) Loss on disposition of capital assets | 7 | (1,237) | | |
| (Gain) Loss on derivative financial instruments | | - | (768,264) | (5,215,060) |
| Changes in non-cash working capital | | | | |
| Advances receivable | | (111,285) | (21,581) | (84,152) |
| Prepaid expenses and deposits | | 269,749 | (225,389) | 4,003 |
| Due (from) to related parties | | (24,186) | (17,760) | 2,346 |
| Accounts payable | | (223,921) | 55,500 | (170,635) |
| Accrued liabilities | | 183,889 | (26,243) | 79,043 |
| **Net cash used in operating activities** | | **(1,769,676)** | **(2,367,165)** | **(2,331,594)** |
| **Cash flows from investing activities** | | | | |
| Acquisition of property, plant, and equipment | | (197,626) | (327,343) | (498,864) |
| Disposition of capital assets | | 300 | - | - |
| Expenditures on exploration and evaluation assets | | (8,454,857) | (16,963,931) | (16,482,374) |
| **Net cash used in investing activities** | | **(8,652,183)** | **(17,291,274)** | **(16,981,238)** |
| **Cash flows from financing activities** | | | | |
| Proceeds from share issuance, net of issuance costs | | - | 14,185,399 | 22,715,237 |
| Due to (from) related parties | | 5,088 | (152,833) | 34,068 |
| Proceeds from exercise of compensation options | | - | 64,571 | 305,602 |
| Proceeds from exercise of warrants | | - | 1,635,343 | 475,809 |
| **Net cash provided from financing activities** | | **5,088** | **15,732,480** | **23,530,716** |
| **Net (decrease) increase in cash during the year** | | (10,416,771) | (3,925,959) | 4,217,884 |
| **Cash and cash equivalents, beginning of the year** | | 10,741,699 | 14,667,658 | 10,449,774 |
| **Cash and cash equivalents, end of the year** | | **324,928** | **10,741,699** | **14,667,658** |

Supplemental cash flow information (Note 16)

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

## 1. CORPORATE INFORMATION

Loncor Resources Inc. (the "Company") is a corporation governed by the Ontario *Business Corporations Act*. The principal business of the Company is the acquisition and exploration of mineral properties.

These consolidated financial statements as at December 31, 2013 and December 31, 2012, and for the years ended December 31, 2013, 2012, and 2011 include the accounts of the Company and of its wholly owned subsidiaries in the Democratic Republic of the Congo (the “Congo”), Loncor Resources Congo Sprl, and in the U.S., Nevada Bob’s Franchising, Inc., respectively.

The Company is a publicly traded company whose outstanding common shares are listed for trading on the Toronto Stock Exchange and on the NYSE MKT LLC. The head office and principal place of business of the Company is located at 1 First Canadian Place, 100 King St. West, Suite 7070, Toronto, Ontario, M5X 1E3, Canada.

## 2. BASIS OF PREPARATION

These consolidated financial statements are prepared on a going concern basis, which assumes that the Company will continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has not generated revenues from operations. The Company produced a net loss of $27,224,451 for the year ended December 31, 2013, and, as of that date, the Company’s accumulated deficit was $52,771,536 which casts substantial doubt on the Company’s ability to continue as a going concern. The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Development of the Company’s current projects to the production stage will require significant financing. Given the current economic climate, the ability to raise funds may prove difficult. The consolidated financial statements do not reflect adjustments to the carrying amount of assets and liabilities and the reported expenses and financial position classifications that would be necessary should the going concern assumption not be appropriate.

### a) Statement of compliance

These consolidated financial statements as at December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The accompanying financial information as at December 31, 2013 and 2012 and for years ended December 31, 2013, 2012 and 2011, have been prepared in accordance with those IASB standards and IFRS Interpretations Committee (“IFRIC”) interpretations issued and effective, or issued and early-adopted, at December 31, 2013.

The date the Company’s Board of Directors approved these consolidated financial statements was March 24, 2014.

### b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial assets which are presented at fair value, as explained in the accounting policies set out in Note 3.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by all group entities and to all periods presented in these consolidated financial statements, unless otherwise indicated.

### a) Basis of Consolidation

**i. Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. The financial statements of subsidiaries are included in the consolidated financial statements of the Company from the date that control commences until the date that control ceases. Consolidation accounting is applied for all of the Company's wholly-owned subsidiaries (see note 4).

**ii. Transactions eliminated on consolidation**

Inter-company balances, transactions, and any unrealized income and expenses, are eliminated in preparing the consolidated financial statements.

Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### b) Use of Estimates and Judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical judgments in applying accounting policies and estimates that have the most significant effect on the amounts recognized in these consolidated financial statements is included in the following notes:

**Estimates:**

**i. Impairment**

Assets, including property, plant and equipment, and exploration and evaluation assets, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the fair value often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, rehabilitation and restoration costs, future capital requirements and future operating performance. Changes in such estimates could impact recoverable values of these assets. Estimates are reviewed regularly by management.

**ii. Share-based payment transactions**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 13.

**iii. Exploration and evaluation expenditure**

The application of the Company's accounting policy for exploration and evaluation expenditure 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. There are a few circumstances that would warrant a test for impairment, which include: the expiry of the right to explore, substantive expenditure on further exploration is not planned, exploration for and evaluation of the mineral resources in the area have not led to discovery of commercially viable quantities, and/or sufficient data exists to show that the carrying amount of the asset is unlikely to be recovered in full from successful development or by sale. If information becomes available suggesting impairment, the amount capitalized is written off in the statement of comprehensive (loss) income during the period the new information becomes available.

**Judgments:**

**i. Provisions and contingencies**

The amount recognized as provision, including legal, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements.

**ii. Income taxes**

The Company is subject to income taxes in various jurisdictions and subject to various rates and rules of taxation. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

In addition, the Company has recognized deferred tax assets relating to tax losses carried forward to the extent it is probable that there will be sufficient taxable income relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilized. However, future realization of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped, including current and future economic conditions, production rates and production costs.

**iii. 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.

## c) Foreign Currency Translation

**i. Functional and presentation currency**

These consolidated financial statements are presented in United States dollars ("$"), which is the Company's functional and presentation currency. References to Cdn$ represent Canadian dollars.

**ii. Foreign currency transactions**

The functional currency for each of the Company's subsidiaries and any associates is the currency of the primary economic environment in which the entity operates. Transactions entered into by the Company's subsidiaries and any associates in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur except depreciation and amortization which are translated at the rates of exchange applicable to the related assets, with any gains or losses recognized in the consolidated statements of comprehensive (loss) income. Foreign currency monetary assets and liabilities are translated at current rates of exchange with the resulting gain or losses recognized in the statements of comprehensive (loss) income. Non-monetary assets and liabilities are translated using the historical exchange rates. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

## d) Cash and Cash Equivalents

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

## e) Financial Assets

A financial asset is classified as either financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held to maturity investments ("HTM"), or available for sale financial assets ("AFS"), as appropriate at initial recognition and, except in very limited circumstances, the classification is not changed subsequently. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. A financial asset is derecognized when contractual rights to the asset's cash flows expire or if substantially all the risks and rewards of the asset are transferred.

**i. Financial assets at FVTPL**

A financial asset is classified as FVTPL when the financial asset is held for trading or it is designated upon initial recognition as an FVTPL. A financial asset is classified as held for trading if (1) it has been acquired principally for the purpose of selling or repurchasing in the near term; (2) it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short term profit taking; or (3) it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in profit or loss. Transaction costs are expensed as incurred.

The Company has classified cash and cash equivalents as FVTPL.

**ii. Loans and receivables**

Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost less losses for impairment. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the period in which they are identified. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statements of comprehensive (loss) income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Company has classified advances receivable and balances due from related parties as loans and receivables.

**iii. AFS financial assets**

Non-derivative financial assets not included in the above categories are classified as AFS financial assets. They are carried at fair value with changes in fair value generally recognized in other comprehensive loss and accumulated in the AFS reserve. Impairment losses are recognized in profit or loss. Purchases and sales of AFS financial assets are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in the AFS reserve. On sale, the cumulative gain or loss recognized in other comprehensive income is reclassified from the AFS reserve to profit or loss. The Company has not designated any of its financial assets as AFS.

**iv. Impairment of financial assets**

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective rate.

The carrying amount of all financial assets is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. Associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of comprehensive (loss) income. A provision for impairment is made in relation to advances receivable, and an impairment loss is recognized in profit and loss when there is objective evidence that the Company will not be able to collect all of the amounts due under the original terms.

With the exception of AFS equity instruments, if in a subsequent period the amount of impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had the impairment not been recognized. Reversal for AFS equity instruments are not recognized in profit or loss.

**v. Effective interest method**

The effective interest method calculates the amortized cost of a financial instrument asset or liability and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset or liability, or where appropriate, a shorter period. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

## f) Financial Liabilities

Financial liabilities are classified as FVTPL, or other financial liabilities, as appropriate upon initial recognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

i. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent to the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The Company's other financial liabilities include accounts payables, accrued liabilities, due to related parties and the employee retention allowance.

ii. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments (including separated embedded derivatives) held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of comprehensive (loss) income. There are no financial liabilities classified as FVTPL.

## g) Earnings (loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) applicable by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is computed by dividing the net income (loss) by the sum of the weighted average number of common shares issued and outstanding during the reporting period and all additional common shares for the assumed exercise of options and warrants outstanding for the reporting period, if dilutive. When the Company is incurring losses, basic and diluted loss per share are the same since including the exercise of outstanding options and share purchase warrants in the diluted loss per share calculation would be anti-dilutive.

## h) Property, Plant and Equipment ("PPE")

**i. Recognition and measurement**

Items of PPE are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, directed labor and any other cost directly attributable to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. Assets in the course of construction are capitalized in the capital construction in progress category and transferred to the appropriate category of PPE upon completion. When components of an asset have different useful lives, depreciation is calculated on each separate component.

**ii. Subsequent costs**

The cost of replacing part of an item of PPE is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized and included in net loss. If the carrying amount of the replaced component is not known, it is estimated based on the cost of the new component less estimated depreciation. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of comprehensive income (loss).

**iii. Depreciation**

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed to determine whether a component has an estimated useful life that is different from that of the remainder of that asset, in which case that component is depreciated separately. Depreciation is recognized in profit or loss over the estimated useful lives of each item or component of an item of PPE as follows:

| | |
|---|---|
| • Field camps and equipment | straight line over 4 Years |
| • Furniture and fixtures | straight line over 4 Years |
| • Office and communications equipment | straight line over 4 Years |
| • Vehicles | straight line over 4 Years |
| • Leasehold improvements | straight line over the lease term |

- Geophysical equipment straight line over 4 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted, if appropriate. Depreciation commences when an asset is available for use. Changes in estimates are accounted for prospectively.

**iv. Gains and losses**

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

**v. De-recognition**

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in net income (loss) in the period the item is derecognized.

## i) Exploration and Evaluation Assets

All direct costs related to exploration and evaluation of mineral properties, net of incidental revenues, are capitalized under exploration and evaluation assets. Exploration and evaluation expenditures include such costs as acquisition of rights to explore; sampling, trenching and surveying costs; costs related to topography, geology, geochemistry and geophysical studies; drilling costs and costs in relation to technical feasibility and commercial viability of extracting a mineral resource.

## j) Impairment of Non-Financial Assets

The Company's PPE, exploration and evaluation assets, and intangible assets are assessed for indication of impairment at each consolidated statements of financial position date. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment in accordance with IAS 36 Impairment of Assets. Internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors are also monitored to determine if indications of impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or the Company's assets. If this is the case, the individual assets are grouped together into cash generating units ("CGU") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statements of comprehensive (loss) income so as to reduce the carrying amount to its recoverable amount (i.e., the higher of fair value less cost to sell and value in use). Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. Estimated future cash flows are calculated using estimated future prices, any mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate. 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 for which estimates of future cash flows have not been adjusted. During the year ended December 31, 2013, the Company recognized impairment of exploration and evaluation assets for $25,801,443 to adjust the carrying value of the assets to their fair value, using a level 3 value in use methodology.

## k) Income Taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statement of comprehensive (loss) income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute current income tax assets and liabilities are measured at future anticipated tax rates, which have been enacted or substantively enacted at the reporting date. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred taxation is provided on all qualifying temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

## l) Share-Based Payments

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period based on the Company's estimate of options that will eventually vest. The number of forfeitures likely to occur is estimated on grant date and is revised as deemed necessary.

Compensation expense on stock options granted to consultants is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital. Shares are issued from treasury upon the exercise of equity-settled share-based instruments.

## m) Provisions and Contingencies

Provisions are recognized when a legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate. The increase in the provision due to passage of time is recognized as interest expense.

When a contingency substantiated by confirming events, can be reliably measured and is likely to result in an economic outflow, a liability is recognized as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

## n) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are in the normal course of business and have commercial substance.

## o) Newly Applied Accounting Standards

The Company has applied the following new and revised IFRSs in these consolidated financial statements: IFRS 10 Consolidated financial statements ("IFRS 10"), IFRS 12 Disclosure of interests in other entities ("IFRS 12"), IFRS 13 fair value measurements ("IFRS 13"), IAS 1 Presentation of financial statements ("IAS 1"), IAS 19 Employee benefits ("IAS 19"), and IAS 27 Separate financial statements ("IAS 27").

The adoption of these new and revised standards and interpretations did not have a significant impact on the Company's consolidated financial statements.

## p) Accounting Standards Issued But Not Yet Effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9 Financial instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date of IFRS 9 has yet to be determined. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

An amendment to IAS 32, Financial Instruments: presentation ("IAS 32") was issued by the IASB in December 2011. The amendment clarifies the meaning of 'currently has a legally enforceable right to set-off'. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Company does not expect the standard to have a material impact on its consolidated financial statements.

An amendment to IAS 36, Impairment of Assets ("IAS 36") was issued by the IASB in May 2013. The amendment reduces the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarifies the disclosures required, and introduces an explicit requirement to disclose the discount rate used in determining impairment. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of IAS 36 on its consolidated financial statements.

In May 2013, IFRS Interpretation Committee ("IFRIC") published IFRIC Interpretation 21, Levies ("IFRIC 21"), effective for annual periods beginning on or after January 1, 2014. IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Company does not expect the standard to have a material impact on its consolidated financial statements.

(Expressed in U.S. dollars, except for per share amount)

## 4. SUBSIDIARIES

The following table lists the Company's subsidiaries:

| Name of Subsidiary | Place of Incorporation | Proportion of Ownership Interest | Principal Activity |
|---|---|---|---|
| Loncor Resources Congo SPRL | Democratic Republic of the Congo | 100% | Mineral Exploration |
| Nevada Bob's Franchising, Inc. | Delaware, USA | 100% | Dormant |

## 5. ADVANCES RECEIVABLE

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Advances receivable | $ 388,763 | $ 152,022 |

The total balance of $388,763 for advances receivable (2012 - $152,022) relates to exploration and evaluation expenditures. Included in this balance of $388,763 is an amount of $126,648 due from Banro Corporation ("Banro"), a company with common directors for the sale of IP equipment.

## 6. RELATED PARTY TRANSACTIONS

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

a) Key Management Remuneration

Key management includes directors (executive and non-executive), the Chief Executive Officer ("CEO"), the Chief Financial Officer, and the senior executives reporting directly to the CEO. The remuneration of the key management of the Company as defined above, during the years ended December 31, 2013, 2012, and 2011 was as follows:

| | Year ended December 31, 2013 | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|---|
| Salaries | $ 830,345 | $ 946,379 | $ 859,237 |
| Employee retention allowance | $ 62,305 | $ 59,014 | $ 62,166 |
| Compensation expense-share-based payments | $ 226,110 | $ 317,407 | $ 1,348,721 |
| | $ 1,118,760 | $ 1,322,800 | $ 2,270,124 |

**(Expressed in U.S. dollars, except for per share amount)**

b) Other Related Parties

As at December 31, 2013, an amount of $41,946 was due from Banro and Delrand Resources Limited ("Delrand"), companies with common directors, related to common expenses in the Congo (December 31, 2012 - $17,760).

As at December 31, 2013, an amount of $5,088 was due to Banro related to common expenses in the Congo (December 31, 2012 - $nil).

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| | $ | $ |
| Due from related parties | 41,946 | 17,760 |
| Due to related party | 5,088 | - |

The amounts included in the due from/to related party are non-interest bearing and are payble within 12 months.

## 7. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment are summarized as follows:

| | Notes | Furniture & fixtures | Office & Communication equipment | Vehicles | Field camps and equipment | Leasehold improvements | Geophysical equipment | **Total** |
|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ |
| **Cost** | | | | | | | | |
| Balance at January 1, 2012 | | **151,626** | **212,212** | **400,241** | **503,839** | **-** | **-** | **1,267,918** |
| Additions | | 7,775 | 9,407 | 10,600 | 214,655 | 84,906 | - | 327,343 |
| Disposals | | - | (11,769) | - | (47,027) | - | - | (58,796) |
| **Balance at December 31, 2012** | | **159,401** | **209,850** | **410,841** | **671,467** | **84,906** | **-** | **1,536,465** |
| Additions | | 1,200 | 3,669 | - | 40,990 | - | 151,767 | 197,626 |
| Disposals | | - | - | - | (12,800) | - | (151,767) | (164,567) |
| **Balance at December 31, 2013** | | **160,601** | **213,519** | **410,841** | **699,657** | **84,906** | | **1,569,524** |
| | | | | | | | | |
| **Accumulated Depreciation** | | | | | | | | |
| Balance at January 1, 2012 | | **102,926** | **72,339** | **149,874** | **163,824** | **-** | **-** | **488,963** |
| Depreciation for the year | | 10,083 | 54,267 | 102,048 | 145,296 | 18,025 | - | 329,719 |
| Disposals | | - | (6,505) | - | (24,955) | - | - | (31,460) |
| **Balance at December 31, 2012** | | **113,009** | **120,101** | **251,922** | **284,165** | **18,025** | **-** | **787,222** |
| Depreciation for the year | | 8,828 | 52,458 | 102,710 | 159,899 | 24,321 | 28,456 | 376,672 |
| Disposals | | - | - | - | (10,400) | - | (28,456) | (38,856) |
| **Balance at December 31, 2013** | | **121,837** | **172,559** | **354,632** | **433,664** | **42,346** | **-** | **1,125,038** |
| | | | | | | | | |
| **Carrying amounts** | | | | | | | | |
| Balance at December 31, 2012 | | **46,392** | **89,749** | **158,919** | **387,302** | **66,881** | **-** | **749,243** |
| Balance at December 31, 2013 | | **38,764** | **40,960** | **56,209** | **265,993** | **42,560** | **-** | **444,486** |

Depreciation in the amount of $341,480 (December 31, 2012- $299,203) was capitalized to exploration and evaluation for the year ended December 31, 2013.

**(Expressed in U.S. dollars, except for per share amount)**

## 8. EXPLORATION AND EVALUATION ASSETS

The following table summarizes the Company's tangible exploration and evaluation expenditures with respect to its mineral properties in the Congo:

| | North Kivu | Ngayu | **Total** |
|---|---|---|---|
| | | | |
| **Cost** | | | |
| **Balance at January 1, 2012** | $ 7,446,710 | $ 22,493,653 | $ 29,940,363 |
| Additions | 1,804,112 | 16,360,726 | 18,164,838 |
| **Balance at December 31, 2012** | **9,250,822** | **38,854,379** | **48,105,201** |
| Additions | 535,380 | 7,904,320 | 8,439,700 |
| Impairment loss | - | (25,801,443) | (25,801,443) |
| **Balance at December 31, 2013** | **$ 9,786,202** | **$ 20,957,256** | **$30,743,458** |

There is $150,000 of intangible exploration and evaluation expenditures as at December 31, 2013. The intangibles have not been included in the table above. There have not been any additions or disposals of intangible assets since January 1, 2013.

**a.** North Kivu

The North Kivu project is situated in the North Kivu Province in eastern Congo to the northwest of Lake Edward and consists of 51 exploration permits covering 13,251 square kilometres. Historical data has been compiled from the colonial period and outlined ten gold prospects for follow-up, the most prospective being the Manguredjipa prospect where 300,000 ounces of alluvial gold was mined during the colonial period. Other gold prospects warranting follow up include Lutunguru, Lubero, Makwasu, Lutela, Bilolo, Manzia, Mohanga and Ludjulu. Exploration estimates to date have not advanced to the stage of being able to identify the quantity of possible resources available for potential mining.

**b.** Ngayu

The Ngayu project covers an area of 2,077 square kilometres and is found within the Orientale Province in the northeast of the Congo, approximately 270 kilometers northeast of Kisangani. The Ngayu project covers most of the Ngayu Archaean greenstone belt which is one of a number of greenstone belts in the north-east Congo Archaeancraton that includes the Kilo and Moto greenstone belts. These Archaean greenstone belts are the northwestern extensions of the Lake Victoria greenstone belt terrain that hosts a number of world class gold deposits including Geita and Bulyanhulu.

Due to a decrease in gold prices coupled with the reduction of the exploration budget, the Company conducted an impairment analysis whereby the carrying value of the Ngayu exploration and evaluation asset was assessed. The asset's recoverable amount was calculated applying a fair value of $18 per ounce of gold in the ground, which was provided by a valuation analysis of an independent report on similar African exploration companies, to the Ngayu project's Makapela mineral resource. Since the carrying value of the asset was determined to be higher than its recoverable amount, an impairment loss of $25,801,443 was recorded during the year ended December 31, 2013.

## 9. INTANGIBLE ASSETS

The Company's intangible assets include licenses and rights. Based on management's assessment, these intangible assets have been valued at $1 as their fair value is nominal.

## 10. SEGMENTED REPORTING

The Company has one operating segment: the acquisition, exploration and development of precious metal projects located in the Congo. The operations of the Company are located in two geographic locations, Canada and the Congo. Geographic segmentation of non-current assets is as follows:

**(Expressed in U.S. dollars, except for per share amount)**

| **December 31, 2013** | | | |
|---|---|---|---|
| | **Property, plant and equipment** | **Intangible assets** | **Exploration and evaluation** |
| Congo | $367,309 | - | $30,893,458 |
| Canada | $77,177 | $1 | - |
| | $444,486 | $1 | $30,893,458 |
| **December 31, 2012** | | | |
| | **Property, plant and equipment** | **Intangible assets** | **Exploration and evaluation** |
| Congo | $636,873 | - | $48,255,201 |
| Canada | $112,370 | $1 | - |
| | $749,243 | $1 | $48,255,201 |

## 11. ACCOUNTS PAYABLE

The following table summarizes the Company's accounts payable:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Exploration and evaluation expenditures | **$ 259,430** | $ 742,291 |
| Non-exploration and evaluation expenditures | **$ 1,869** | $ 234,251 |
| | | |
| Total Accounts Payable | **$ 261,299** | $ 976,542 |

## 12. SHARE CAPITAL

a) Authorized

The authorized share capital of the Company consists of unlimited number of common shares and unlimited number of preference shares, issuable in series, with no par value. All shares issued are fully paid.

The holders of common shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company and shall have one vote for each common share held at all meetings of shareholders of the Company, except for meetings at which only holders of another specified class or series of shares are entitled to vote separately as a class or series. Subject to the prior rights of the holders of the preference shares or any other share ranking senior to the common shares, the holders of the common shares are entitled to (a) receive any dividend as and when declared by the board of directors, out of the assets of the Company properly applicable to payment of dividends, in such amount and in such form as the board of directors may from time to time determine, and (b) receive the remaining property of the Company in the event of any liquidation, dissolution or winding up of the Company.

The Company may issue preference shares at any time and from time to time in one or more series with designations, rights, privileges, restrictions and conditions fixed by the board of directors. The preference shares of each series are ranked on parity with the preference shares of every series and are entitled to priority over the common shares and any other shares of the Company ranking junior to the preference shares, with respect to priority in payment of dividends and the return of capital and the distribution of assets of the Company in the event of liquidation, dissolution or winding up of the Company.

On October 9, 2012, the Company closed the issuance and sale, by way of short form prospectus, of a total of 9,245,000 common shares at a price of Cdn$1.05 per share, resulting in gross proceeds of Cdn$9,707,250.

Also on October 9, 2012, the Company closed a non-brokered private placement involving the issuance and sale of a total of 4,850,000 common shares at a price of Cdn$1.05 per share, resulting in gross proceeds of Cdn$5,092,500.

During the year ended December 31, 2012, a total of 47,998 compensation options (each of which entitled the holder to purchase one common share and one-half of one warrant of the Company) were exercised, resulting in gross proceeds of $64,571. As well, during the year ended December 31, 2012, a total of 1,123,999 warrants were exercised, resulting in gross proceeds of $1,635,343.

As of December 31, 2013, the Company had issued and outstanding 73,439,732 common shares (December 31, 2012 – 73,439,732) and no preference shares are issued and outstanding.

b) Common share purchase warrants

As at December 31, 2013, the Company had no common share purchase warrants outstanding (December 31, 2012 – nil).

During the year ended December 31, 2013, the Company recorded a gain on derivative financial instruments of $nil (year ended December 31, 2012 - $768,264).

As part of the February 1, 2011 brokered private placement, the Company issued to the underwriters 510,000 broker warrants each of which was exercisable to acquire a common share of the Company at a price of Cdn$2.35 until February 1, 2013. Since the fair value of the services received from the underwriters cannot be estimated reliably, the Company estimated the value using Black-Scholes. The warrants had a value of Cdn$1.63 using the Black-Scholes model with the following assumptions: volatility 115.38%, risk free rate 1.65%, expected life 2 years, dividend yield 0%. These broker warrants expired on February 1, 2013 unexercised.

As part of the October 9, 2012 prospectus offering, the Company issued to the underwriters 554,700 broker warrants each of which is exercisable to acquire a common share of the Company at a price of Cdn$1.05 until October 9, 2013. Since the fair value of the services received from the underwriters cannot be estimated reliably, the Company estimated the value using Black-Scholes. The warrants have a value of Cdn$0.28 using the Black-Scholes model with the following assumptions: volatility 63.75%, risk free rate 1.15%, expected life 1 year, dividend yield 0%. These 554,700 broker warrants expired on October 9, 2013 unexercised.

c) Earnings (loss) per share

Earnings (loss) per share was calculated on the basis of the weighted average number of common shares outstanding for the year ended December 31, 2013, amounting to 73,439,732 (year ended December 31, 2012 – 62,395,579 and year ended December 31, 2011 – 57,055,811) common shares. The diluted weighted average number of common shares outstanding for the year ended December 31, 2013 is 73,439,732 (year ended December 31, 2012 – 62,649,057 and year ended December 31, 2011 – 57,816,654) common shares. As at December 31, 2013, 6,110,000 common shares related to options were anti-dilutive.

## 13. SHARE-BASED PAYMENTS

The Company has an incentive Stock Option Plan under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or consultants of the Company or any of its subsidiaries. No amounts are paid or payable by the recipient on receipt of the option, and the exercise of the options granted is not dependent on any performance-based criteria. In accordance with these programs, options are exercisable at a price not less than the last closing price of the shares at the grant date.

Under this Stock Option Plan, 25% of options granted vest on each of the 6 month, 12 month, 18 month and 24 month anniversaries of the grant date.

The following tables summarize information about stock options:

For the year ended December 31, 2013:

**(Expressed in U.S. dollars, except for per share amount)**

| Exercise Price Range (Cdn$) | Opening Balance | During the Period | | | | Closing Balance | Weighted average remaining contractual life (years) | Vested & Exercisable | Unvested |
|---|---|---|---|---|---|---|---|---|---|
| | | Granted | Exercised | Forfeiture | Expired | | | | |
| 1.00 - 1.25 | 5,315,000 | - | - | 625,000 | - | 4,690,000 | 1.96 | 3,817,500 | 872,500 |
| 1.26 - 1.80 | 110,000 | - | - | 40,000 | - | 70,000 | 3.03 | 52,500 | 17,500 |
| 2.45 - 2.69 | 1,465,000 | - | - | 190,000 | - | 1,275,000 | 1.53 | 1,275,000 | - |
| 2.70 - 3.25 | 75,000 | - | - | - | - | 75,000 | 2.17 | 75,000 | - |
| | 6,965,000 | - | - | 855,000 | - | 6,110,000 | 1.88 | 5,220,000 | 890,000 |
| Weighted Average Exercise Price (Cdn$) | 1.49 | - | | 1.54 | | 1.48 | | 1.55 | 1.08 |

For the year ended December 31, 2012:

| Exercise Price Range (Cdn$) | Opening Balance | During the Period | | | | Closing Balance | Weighted average remaining contractual life (years) | Vested & Exercisable | Unvested |
|---|---|---|---|---|---|---|---|---|---|
| | | Granted | Exercised | Forfeiture | Expired | | | | |
| 1.00 - 1.25 | 3,405,000 | 1,910,000 | - | - | - | 5,315,000 | 2.93 | 3,405,000 | 1,910,000 |
| 1.26 - 1.80 | - | 110,000 | - | - | - | 110,000 | 4.03 | 27,500 | 82,500 |
| 2.45 - 2.69 | 1,465,000 | - | - | - | - | 1,465,000 | 2.60 | 1,098,750 | 366,250 |
| 2.70 - 3.25 | 75,000 | - | - | - | - | 75,000 | 3.17 | 56,250 | 18,750 |
| | 4,945,000 | 2,020,000 | - | - | - | 6,965,000 | 2.88 | 4,587,500 | 2,377,500 |
| Weighted Average Exercise Price (Cdn$) | 1.65 | 1.10 | | | | 1.49 | | 1.56 | 1.35 |

There were no options granted during the year ended December 31, 2013 (the assessed weighted average fair value at grant date of options granted during year ended December 31, 2012 was Cdn$0.37 per option). The weighted average fair value of stock options issued and outstanding as at December 31, 2013 was estimated at Cdn$0.98 per stock option at the grant date (year ended December 31, 2012 – Cdn$1.00).

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended December 31, 2012 and 2011 included the following (no options were granted during the year ended December 31, 2013):

| **Years ended** | December 31, 2013 | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Risk free interest rate | - | 1.00% - 1.16% | 1.83% - 2.18% |
| Expected life | - | 3 years | 3 years |
| Annualized volatility | - | 68.02% - 104.54% | 101.78% - 115.19% |
| Dividend yield | - | 0% | 0% |
| Forfeiture rate | - | 2% | 2% |
| Grant date fair value (Cdn$) | - | $0.32 - $1.14 | $1.69 - $2.06 |

**(Expressed in U.S. dollars, except for per share amount)**

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

During the year ended December 31, 2013, the Company recognized in the statement of comprehensive (loss) income as an expense $259,559 (year ended December 31, 2012 – $484,897 and year ended December 31, 2011 - $1,671,475) representing the vesting of the fair value at the date of grant of stock options previously granted to employees, directors and officers under the Company's Stock Option Plan. In addition, an amount of $154,962 for the year ended December 31, 2013 (year ended December 31, 2012 – $184,084 and year ended December 31, 2011 - $643,410) related to stock options issued to employees of the Company's subsidiary in the Congo was capitalized to exploration and evaluation assets.

Since the fair value of goods or services received from consultants cannot be estimated reliably, the Company has measured their value and the corresponding increase in equity indirectly by reference to the fair value of the equity instrument granted. During the year ended December 31, 2013, $2,464 (year ended December 31, 2012 - $75,098 and year ended December 31, 2011 - $567,699) was recorded as a consulting expense with respect to stock options granted to consultants.

These amounts were credited accordingly to reserves in the statement of financial position.

## 14. COMMITMENTS

Lease Commitments

The Company has entered into leases for buildings with renewal terms whereby the lease agreements can be extended based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases.

The Company's future minimum operating lease commitments as at December 31, 2013 are as follows:

| | |
|---|---|
| 2014 | $ 75,611 |
| 2015 | $ 50,407 |
| | $ 126,018 |

## 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### a) Fair value of financial assets and liabilities

The consolidated statements of financial position carrying amounts for cash and cash equivalents, advances receivable, balances due from and due to related parties, accounts payable, accrued liabilities and the employee retention allowance approximate fair value due to their short-term nature.

**Fair value hierarchy**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

There were no transfers between Level 1, 2 and 3 during the reporting period. The fair values of financial assets and liabilities carried at amortized cost are approximated by their carrying values. Cash and cash equivalents is ranked Level 1 as the market value is readily observable. The carrying value of cash and cash equivalents approximates fair value, as maturities are less than three months.

b) Risk Management Policies

The Company is sensitive to changes in commodity prices and foreign-exchange. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Although the Company has the ability to address its price-related exposures through the use of options, futures and forward contacts, it does not generally enter into such arrangements.

c) Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the United States dollar and Canadian dollar or other foreign currencies will affect the Company's operations and financial results. A portion of the Company's transactions are denominated in Canadian dollars. The Company is also exposed to the impact of currency fluctuations on its monetary assets and liabilities. Significant foreign exchange gains or losses are reflected as a separate item in the consolidated statement of comprehensive (loss) income. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The following table indicates the impact of foreign currency exchange risk on net working capital as at December 31, 2013. The table below also provides a sensitivity analysis of a 10 percent strengthening of the US dollar against the Canadian dollar which would have increased (decreased) the Company's net loss by the amounts shown in the table below. A 10 percent weakening of the US dollar against the Canadian dollar would have had the equal but opposite effect as at December 31, 2013.

| | **2013** | **2012** |
|---|---|---|
| | **Canadian dollar** | **Canadian dollar** |
| Cash and cash equivalents | 159,360 | 9,817,849 |
| Accounts payable and accrued liabilities | (302,199) | (329,118) |
| Employee retention allowance | (248,083) | (169,496) |
| **Total foreign currency financial assets and liabilities** | (390,922) | 9,319,235 |
| Foreign exchange rate at December 31, 2013 | 0.9402 | 1.0051 |
| **Total foreign currency financial assets and liabilities in US $** | (367,545) | 9,366,763 |
| **Impact of a 10% strengthening of the US $ on net loss** | (36,754) | 936,676 |

d) Credit Risk

Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents, advances receivable, and due from related parties. Cash and cash equivalents are maintained with several financial institutions of reputable credit and may be redeemed upon demand. It is therefore the Company's opinion that such credit risk is subject to normal industry risks and is considered minimal.

The Company limits its exposure to credit risk on investments by investing only in securities rated R1 (the highest rating) by credit rating agencies such as the DBRS (Dominion Bond Rating Service). Management continuously monitors the fair value of its investments to determine potential credit exposures. Short-term excess cash is invested in R1 rated investments including money market funds and other highly rated short-term investment instruments. Any credit risk exposure on cash balances is considered negligible as the Company places deposits only with major established banks in the countries in which it carries on operations.

The carrying amount of financial assets represents the maximum credit exposure. The Company's gross credit exposure at December 31, 2013 and December 31, 2012 is as follows:

**(Expressed in U.S. dollars, except for per share amount)**

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Cash and cash equivalents | $324,928 | $10,741,699 |
| Advances receivable | $388,763 | $152,022 |
| Due from related parties | $41,946 | $17,760 |
| | $755,637 | $10,911,481 |

e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company attempts to ensure that there is sufficient cash to meet its liabilities when they are due and manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner. Temporary surplus funds of the Company are invested in short-term investments. The Company arranges the portfolio so that securities mature approximately when funds are needed. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. The Company's liquidity requirements are met through a variety of sources, including cash and cash equivalents and equity capital markets. All financial obligations of the Company including accounts payable of $261,299, accrued liabilities of $307,535 and retention allowance of $629,554 are due within one year.

f) Mineral Property Risk

The Company's operations in the Congo are exposed to various levels of political risk and uncertainties, including political and economic instability, government regulations relating to exploration and mining, military repression and civil disorder, all or any of which may have a material adverse impact on the Company's activities or may result in impairment in or loss of part or all of the Company's assets.

g) Capital Management

The Company manages its common shares and stock options as capital. The Company's policy is to maintain a sufficient capital base in order to meet its short term obligations and at the same time preserve investors' confidence required to sustain future development of the business.

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Share capital | $ 75,715,014 | $ 75,715,014 |
| Reserves | $ 8,035,188 | $ 7,618,203 |
| Deficit | $ (52,771,536) | $ (25,547,085) |
| | $ 30,978,666 | $ 57,786,132 |

**(Expressed in U.S. dollars, except for per share amount)**

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

During the periods indicated the Company undertook the following significant non-cash transactions:

| | | Years ended | | |
|---|---|---|---|---|
| | Note | **December 31, 2013** | December 31, 2012 | December 31, 2011 |
| | | | | |
| Depreciation included in exploration and evaluation assets | 7 | **$ 341,480** | $ 299,203 | $255,101 |
| Stock-based compensation included in exploration and evaluation assets | 13 | **$ 155,034** | $ 184,084 | $643,410 |
| Employee retention allowance | 17 | **$ 139,274** | $ 82,000 | $ 68,521 |

## 17. EMPLOYEE RETENTION ALLOWANCE

The Company has an incentive employee retention plan under which an amount equal to one month salary per year of service is accrued to each qualified employee up to a maximum of 10 months (or 10 years of service with the Company and/or a related company). To qualify for this retention allowance, an employee must complete two years of service with the Company and/or a related company. The full amount of retention allowance accumulated by a particular employee is paid out when the employee is no longer employed with the Company, unless there is a termination due to misconduct, in which case the retention allowance is forfeited. There is uncertainty about the timing of these outflows but with the information available and assumption that eligible employees will not be terminated due to misconduct, as at December 31, 2013, the Company had accrued a total liability of $629,554 (December 31, 2012 - $490,280).

The following table summarizes information about changes to the Company's employee retention allowance during year ended December 31, 2013.

| | 2013 | 2012 |
|---|---|---|
| Balance at beginning of year | $490,280 | $335,720 |
| Additions | 139,274 | 154,560 |
| Paid to employees | - | - |
| Balance at December 31, 2013 | **$629,554** | **$490,280** |

Of the $139,274 accrued during the year ended December 31, 2013, $62,958 (December 31 2012 - $82,000) was capitalized to exploration and evaluation expenditures.

**(Expressed in U.S. dollars, except for per share amount)**

## 18. INCOME TAXES

The following table reconciles the income taxes calculated at statutory rates with the income tax expense in the statement of comprehensive (loss) income:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| | $ | $ | $ |
| Net income (loss) for the year | (28,037,589) | (2,026,500) | 726,183 |
| Combined federal and provincial income tax rates | 26.50% | 26.51% | 28.25% |
| Income tax recovery at Canadian federal and provincial statutory rates | (7,429,961) | (537,225) | 205,147 |
| | | | |
| Non deductible expenses | 194,085 | 60,700 | (1,209,035) |
| Share issue costs | - | - | (294,900) |
| Difference between Canadian rates and rates applicable to subsidiary in the Foreign Jurisdictions | (903,234) | - | 11,303 |
| Change in tax rate | - | (158,197) | 121,103 |
| Foreign exchange differences | - | - | 10,910 |
| Expired losses | | 192,365 | - |
| Other | 178,738 | 3,549 | (365) |
| Change in unrecognized deferred tax asset | 7,147,235 | 494,131 | 1,348,860 |
| Income tax expense | (813,137) | 55,323 | 193,023 |

The Company has temporary differences of $11,127,913 (December 31, 2012 - $3,800,733, December 31, 2011 - $2,988,064) for which no deferred tax asset is recognized.

The nature and tax effect of the temporary differences giving rise to the deferred income tax assets and liabilities at December 31, 2013, 2012 and 2011 are summarized as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| | $ | $ | $ |
| Non-capital losses carried forward | 3,789,924 | 3,097,895 | 2,374,267 |
| Financing costs | 405,230 | 660,288 | 581,285 |
| Fixed assets | 51,876 | 42,550 | 32,512 |
| Mineral properties | 6,880,883 | - | - |
| | 11,127,913 | 3,800,733 | 2,988,064 |
| Unrecognized deferred tax assets | (11,127,913) | (3,800,733) | (2,988,064) |
| Deferred tax asset | - | - | - |
| Mineral properties | - | 813,138 | 757,815 |
| Deferred tax liability | - | 813,138 | 757,815 |

As at December 31, 2013, the Company has available non-capital losses in Canada of approximately $12,194,000 (2012 - $10,262,000) that if not utilized will expire as follows:

**(Expressed in U.S. dollars, except for per share amount)**

| | | |
|---|---|---|
| 2023 | | 32,000 |
| 2024 | | 105,000 |
| 2025 | | 203,000 |
| 2026 | | 320,000 |
| 2027 | | 161,000 |
| 2028 | | 244,000 |
| 2029 | | 826,000 |
| 2030 | | 1,863,000 |
| 2031 | | 3,178,000 |
| 2032 | | 2,669,000 |
| 2033 | | 2,593,000 |
| | $ | 12,194,000 |

As at December 31, 2013, the Company has available non-capital losses in the United States of approximately $1,079,000 (2012 - $1,076,500) that if not utilized will expire as follows:

| | | |
|---|---|---|
| 2022 | $ | 102,000 |
| 2023 | | 277,000 |
| 2024 | | 236,000 |
| 2025 | | 39,000 |
| 2026 | | 158,000 |
| 2027 | | 246,000 |
| 2028 | | 9,000 |
| 2029 | | 5,000 |
| 2030 | | 1,000 |
| 2031 | | 2,000 |
| 2032 | | 2,000 |
| 2033 | | 2,000 |
| | $ | 1,079,000 |