

PASSPORT POTASH INC
Form 10-Q
October 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended August 31, 2013

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-54751

PASSPORT POTASH INC.

(Exact name of small business issuer as specified in its charter)

British Columbia, Canada

(State or other jurisdiction of incorporation or
organization)

Not Applicable

(I.R.S. Employer Identification No.)

608 1199 West Pender Street

Vancouver, BC, Canada

(Address of principal executive offices)

V6E 2R1

(Zip Code)

(604) 687-0300

Registrant's telephone number, including area code

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, non-accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 183,619,388 shares of common stock as of October 7, 2013.

PASSPORT POTASH INC. AND SUBSIDIARY

**Quarterly Report On Form 10-Q
For The Quarterly Period Ended
August 31, 2013**

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FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as *may*, *will*, *should*, *expect*, *intend*, *anticipate*, *believe*, *estimate*, *predict*, *potential* or *continue*, the negative of such terms or other terminology. In evaluating these statements, you should consider various factors, including the assumptions, risks and uncertainties outlined in our annual report on Form 10-K for the fiscal year ended February 28, 2013 filed with the Securities and Exchange Commission (the *SEC*) on May 31, 2013, this quarterly report on Form 10-Q, and, from time to time, in other reports that we file with the SEC. These factors or any of them may cause our actual results to differ materially from any forward-looking statement. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Forward-looking statements in this quarterly report include, among others, statements regarding:

- our capital needs;
- business plans; and
- expectations.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding future events, our actual results will likely vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. Some of the risks and assumptions include:

- our need for additional financing;
- our limited operating history;
- our history of operating losses;
- our exploration activities may not result in commercially exploitable quantities of potash on our current or any future mineral properties;
- the risks inherent in the exploration for minerals such as geologic formation, weather, accidents, equipment failures and governmental restrictions;
- the competitive environment in which we operate;
- changes in governmental regulation and administrative practices;
- our dependence on key personnel;
- conflicts of interest of our directors and officers;
- our ability to fully implement our business plan;
- our ability to effectively manage our growth; and
- other regulatory, legislative and judicial developments.

We advise the reader that these cautionary remarks expressly qualify in their entirety all forward-looking statements attributable to us or persons acting on our behalf. Important factors that you should also consider, include, but are not limited to, the factors discussed under *Risk Factors* in our annual report on Form 10-K for the fiscal year ended February 28, 2013 filed with the SEC on May 31, 2013.

The forward-looking statements in this quarterly report are made as of the date of this quarterly report and we do not intend or undertake to update any of the forward-looking statements to conform these statements to actual results, except as required by applicable law, including the securities laws of the United States.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The following unaudited interim consolidated financial statements of Passport Potash Inc. (sometimes referred to as we , us or our Company) are included in this quarterly report on Form 10-Q:

It is the opinion of management that the unaudited interim consolidated financial statements for the three and six months ended August 31, 2013 and 2012 include all adjustments necessary in order to ensure that the unaudited interim consolidated financial statements are not misleading. These unaudited interim financial statements reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with accounting principles generally accepted in the United States of America. Except where noted, these unaudited interim consolidated financial statements follow the same accounting policies and methods of their application as our Company s audited annual financial statements for the year ended February 28, 2013. All adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with our Company s audited annual consolidated financial statements as of and for the year ended February 28, 2013.

Passport Potash Inc.

(An Exploration Stage Company)

Consolidated Financial Statements

Six months ended August 31, 2013

Expressed in United States Dollars

(Unaudited)

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Passport Potash Inc.
 (An Exploration Stage Company)
 Consolidated Balance Sheets - unaudited
 (Expressed in United States dollars)

| | Notes | August 31, 2013 | February 28, 2013 |
|--|-------|---------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 38,205 | \$ 1,643,771 |
| Receivables | | 20,524 | 56,526 |
| Injunction bond | 3 | - | 350,000 |
| Prepaid expenses | | 174,548 | 272,750 |
| Deferred issuance costs | | 17,976 | 37,380 |
| Total current assets | | 251,253 | 2,360,427 |
| Equipment | | | |
| Equipment | 2 | 742 | 824 |
| Unproven mineral properties | 3 | 1,600,000 | 1,600,000 |
| Long term deposit | 3 | 975,000 | 975,000 |
| Reclamation deposits | 3 | 15,000 | 15,000 |
| Total non-current assets | | 2,590,742 | 2,590,824 |
| TOTAL ASSETS | | \$ 2,841,995 | \$ 4,951,251 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade payables and accrued liabilities | 5 | \$ 1,182,032 | \$ 1,053,170 |
| Convertible debentures | 4 | 4,252,919 | 1,624,128 |
| Convertible debentures subscriptions received | 4 | - | 350,000 |
| Derivative liability | 7 | 105,460 | 1,619,786 |
| TOTAL LIABILITIES | | 5,540,411 | 4,647,084 |
| STOCKHOLDERS EQUITY (DEFICIT) | | | |
| Common stock Unlimited authorized without par value, 183,619,388 and 183,551,407 issued and outstanding at August 31, 2013 and February 28, 2013, respectively | 6 | 33,675,350 | 33,659,380 |
| Additional paid-in capital | | 15,815,790 | 15,088,169 |
| Accumulated deficit | | (13,514,818) | (13,514,818) |
| Deficit accumulated during exploration stage | | (38,674,738) | (34,928,564) |
| TOTAL STOCKHOLDERS EQUITY (DEFICIT) | | (2,698,416) | 304,167 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) | | \$ 2,841,995 | \$ 4,951,251 |

Commitments and contingencies (Notes 1 and 3)

On behalf of the Board of Directors:

Joshua Bleak
 Director

Laara Shaffer
 Director

See accompanying notes to the consolidated financial statements

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Passport Potash Inc.
 (An Exploration Stage Company)
 Consolidated statement of operations - unaudited
 (Expressed in United States dollars)

| | | Three month periods ended August 31, | | Six month periods ended August 31, | | For the period May 22, 2007 (Inception of Exploration Stage) to August 31, 2013 |
|--|-------|---|-------------|---------------------------------------|-------------|--|
| | Notes | 2013 | 2012 | 2013 | 2012 | |
| Operating Expenses | | | | | | |
| Administration | 5 | \$ 64,836 | \$ 21,591 | \$ 85,460 | \$ 26,092 | \$ 988,319 |
| Advertising | | 21,050 | 134,987 | 72,543 | 345,944 | 1,814,028 |
| Business development | | 104,677 | 113,119 | 240,485 | 306,348 | 1,257,022 |
| Consulting fees | 5 | 200,282 | 135,590 | 330,975 | 313,858 | 8,552,689 |
| Depreciation | | 41 | 55 | 82 | 110 | 2,299 |
| Foreign exchange loss (gain) | | 11,139 | (161,934) | 19,305 | 143,947 | 152,808 |
| Investor relations | | 79,802 | 67,399 | 140,690 | 188,671 | 1,398,487 |
| Management fees | 5 | 247,901 | 166,043 | 412,115 | 337,044 | 3,693,415 |
| Mineral property impairment | | - | - | - | - | 652,784 |
| Mineral property option payments and exploration costs | 3,5 | 431,073 | 2,558,018 | 1,076,358 | 3,794,043 | 21,745,969 |
| Office and miscellaneous | | 15,363 | 17,720 | 35,370 | 34,971 | 313,473 |
| Professional fees | | 239,076 | 262,774 | 275,857 | 336,499 | 1,550,578 |
| Property investigation costs | | - | - | - | - | 24,483 |
| Transfer agent and filing fees | | 31,457 | 16,855 | 59,100 | 19,298 | 404,053 |
| | | (1,446,697) | (3,332,217) | (2,748,340) | (5,846,825) | (42,550,407) |
| Other items | | | | | | |
| Accretion expense | 4 | (1,049,013) | - | (2,076,400) | - | (2,169,966) |
| | 7 | 816,868 | 1,749,229 | 1,511,513 | 4,995,782 | 6,292,352 |

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| | | | | | |
|--|-----------------------|-----------------------|-----------------------|---------------------|------------------------|
| Change in fair value of derivative liability | | | | | |
| Interest expense on convertible debentures | (218,533) | - | (432,947) | - | (452,570) |
| Interest income | - | 10,334 | - | 24,528 | 90,216 |
| Loss on debt settlement | - | - | - | - | (37,488) |
| Other income | - | 112,668 | - | 112,668 | 153,125 |
| | (450,678) | 1,872,231 | (997,834) | 5,132,978 | 3,875,669 |
| Net loss | \$ (1,897,375) | \$ (1,459,986) | \$ (3,746,174) | \$ (713,847) | \$ (38,674,738) |
| Loss per share basic and diluted | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ (0.00) | |
| Weighted average number of shares outstanding during the year basic and diluted | 183,610,235 | 172,118,709 | 183,597,578 | 170,721,208 | |

See accompanying notes to the consolidated financial statements

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Passport Potash Inc.
(An Exploration Stage Company)
Consolidated statement of stockholders' equity (deficit) - unaudited
(Expressed in United States dollars)

| | Common Stock | | | | Accumulated | Accumulated | Accumulated | Total |
|--|--------------------|----------------------|----------------------|------------------------|------------------------|-------------|-------------|----------------|
| | Number of | Amount | Additional | Additional | Deficit During | Deficit | Deficit | |
| | shares | | Paid-in Capital | Paid-in Capital | Exploration | | Stage | |
| | | | | | | | | |
| Balance at February 28, 2013 | 183,551,407 | \$ 33,659,380 | \$ 15,088,169 | \$ (13,514,818) | \$ (34,928,564) | \$ | \$ | 304,167 |
| Net loss | - | - | - | - | (3,746,174) | | | (3,746,174) |
| Shares issued for cash convertible debentures exercised | 26,315 | 5,000 | - | - | - | | | 5,000 |
| Shares issued for cash warrants exercised | 41,666 | 8,157 | - | - | - | | | 8,157 |
| Transfer from derivative liability warrants exercised | - | 2,813 | - | - | - | | | 2,813 |
| Amount allocated to share purchase warrants on issuance of Debentures | - | - | 137,515 | - | - | | | 137,515 |
| Amount allocated to beneficial conversion feature on issuance of Debentures | - | - | 223,041 | - | - | | | 223,041 |
| Issuance costs allocated to share purchase warrants and beneficial conversion feature on | - | - | (1,840) | - | - | | | (1,840) |

| | | | | | | |
|---|--------------------|----------------------|----------------------|------------------------|------------------------|-----------------------|
| issuance of Debentures | | | | | | |
| Stock-based compensation | - | - | 368,905 | - | - | 368,905 |
| Balance at August 31, 2013 | 183,619,388 | \$ 33,675,350 | \$ 15,815,790 | \$ (13,514,818) | \$ (38,674,738) | \$ (2,698,416) |

See accompanying notes to the consolidated financial statements

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Passport Potash Inc.
(An Exploration Stage Company)
Consolidated statements of cash flows - unaudited
(Expressed in United States dollars)

| | Six months periods ended | | Cumulative from |
|--|--------------------------|---------------------|---------------------|
| | August 31, | August 31, | May 22, 2007 |
| | 2013 | 2012 | (Inception of |
| | | | Exploration Stage) |
| | | | to August 31, 2013 |
| Operating activities | | | |
| Net loss for the period | \$ (3,746,174) | \$ (713,847) | \$ (38,674,738) |
| Adjustments for: | | | |
| Accretion expense | 2,076,400 | - | 2,169,966 |
| Amortization of deferred issuance costs | 20,059 | - | 20,059 |
| Depreciation | 82 | 110 | 2,299 |
| Interest expense on convertible debentures | 432,947 | - | 452,570 |
| Fair value adjustment on warrants | (1,511,513) | (4,995,782) | (6,292,352) |
| Foreign exchange | - | - | (256,260) |
| Loss on debt settlement | - | - | 37,488 |
| Mineral property option payments - shares | - | 317,531 | 1,948,597 |
| Other income | - | - | (138,474) |
| Stock-based compensation | 368,905 | 91,218 | 11,590,163 |
| Changes in non-cash working capital items: | | | |
| Receivables | 36,002 | 837 | (20,524) |
| Injunction bond | 350,000 | - | - |
| Prepaid expenses | 98,202 | 67,763 | (172,446) |
| Trade payables and accrued liabilities | 128,862 | (197,438) | 1,153,131 |
| Net cash flows used in operating activities | (1,746,228) | (5,429,608) | (28,180,521) |
| Investing activities | | | |
| Reclamation deposits | - | - | (15,000) |
| Long term deposits | - | (250,000) | (975,000) |
| Mineral property acquisition costs | - | (300,000) | (1,600,000) |
| Net cash flows used in investing activities | - | (550,000) | (2,590,000) |
| Financing activities | | | |
| Debentures - net of issue costs | 132,505 | - | 5,662,559 |
| Proceeds on issuance of common shares - net of issue costs | 8,157 | 176,976 | 25,146,167 |
| Net cash flows from financing activities | 140,662 | 176,976 | 30,808,726 |
| (Decrease) increase in cash and cash equivalents | (1,605,566) | (5,802,632) | 38,205 |
| Cash and cash equivalents, beginning | 1,643,771 | 8,599,010 | - |
| Cash and cash equivalents, ending | \$ 38,205 | \$ 2,796,378 | \$ 38,205 |
| Cash and cash equivalents consist of: | | | |
| Cash at bank | \$ 38,205 | \$ 768,578 | |
| Guaranteed investment certificates | - | 2,027,800 | |

| | | | |
|----|--------|----|-----------|
| \$ | 38,205 | \$ | 2,796,378 |
|----|--------|----|-----------|

See accompanying notes to the consolidated financial statements

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Passport Potash Inc.
 (An Exploration Stage Company)
 Notes to the consolidated financial statements - unaudited
 (Expressed in United States dollars)
 For the six months ended August 31, 2013

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Passport Potash Inc. (the Company) was incorporated on August 11, 1987. The Company's corporate jurisdiction is the province of British Columbia, Canada. The Company has been engaged in the acquisition and exploration of mineral properties since 2007. The Company's shares are listed on the TSX-Venture Exchange (TSX-V).

The unaudited consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial for the year ended February 28, 2013. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended August 31, 2013, are not necessarily indicative of the results that may be expected for any other interim period or the entire year. For further information, these unaudited consolidated financial statements and the related notes should be read in conjunction with the Company's audited consolidated financial statements for the year ended February 28, 2013 included in the Company's Form 10-K.

The Company's consolidated financial statements are prepared on a going concern basis in accordance with US generally accepted accounting principles (GAAP) which contemplates the realization of assets and discharge of liabilities and commitments in the normal course of business. The Company is in the exploration stage. It has not generated operating revenues to date, and has accumulated losses of \$52,189,556 since inception. The Company has funded its operations through the issuance of capital stock and debt. In addition to planned exploration programs and ongoing operating costs, the Company has contractual commitments to make acquisition payments of \$1,250,000 before February 28, 2014. The Company will also need to repay outstanding convertible debentures if these are not converted - these have maturity dates ranging from February 19, 2014 to April 4, 2014. At August 31, 2013, the Company had cash of \$38,205 and a working capital deficit of \$5,289,158. Management plans to raise additional funds through equity and/or debt financings. There is no certainty that further funding will be available as needed. These factors raise substantial doubt about the ability of the Company to continue operating as a going concern. The Company's ability to continue its operations as a going concern, realize the carrying value of its assets, and discharge its liabilities in the normal course of business is dependent upon its ability to raise new capital sufficient to fund its commitments and ongoing losses, and ultimately on generating profitable operations.

NOTE 2 EQUIPMENT

| | Equipment |
|--|------------------|
| Cost: | |
| At August 31, 2013 and February 28, 2013 | \$ 34,527 |
| Depreciation: | |
| At February 28, 2013 | 33,703 |
| Charge for the period | 82 |
| At August 31, 2013 | \$ 33,785 |
| Net book value: | |
| At February 28, 2013 | \$ 824 |
| At August 31, 2013 | \$ 742 |

Passport Potash Inc.
 (An Exploration Stage Company)
 Notes to the consolidated financial statements - unaudited
 (Expressed in United States dollars)
 For the six months ended August 31, 2013

NOTE 3 UNPROVEN MINERAL PROPERTIES**Holbrook Basin Project**

| | August 31, 2013 | Additions | February 28, 2013 | Additions | February 29, 2012 |
|--|-----------------|--------------|-------------------|--------------|-------------------|
| Property acquisition costs | | | | | |
| Cash paid for property | \$ 1,600,000 | \$ - | \$ 1,600,000 | \$ 300,000 | \$ 1,300,000 |
| | \$ 1,600,000 | \$ - | \$ 1,600,000 | \$ 300,000 | \$ 1,300,000 |
| Option payments and exploration costs | | | | | |
| Assay | \$ 309,680 | \$ 26,603 | \$ 283,077 | \$ 209,758 | \$ 73,319 |
| Drilling and related costs | 8,757,584 | 234,390 | 8,523,194 | 3,308,785 | 5,214,409 |
| Geological consulting | 2,975,775 | 484,744 | 2,491,031 | 1,177,932 | 1,313,099 |
| License and filing | 474,278 | 30,602 | 443,676 | 344,273 | 99,403 |
| Option payments | 6,362,855 | - | 6,362,855 | 3,699,792 | 2,663,063 |
| Project administration | 2,978,465 | 300,019 | 2,678,446 | 783,470 | 1,894,976 |
| Recovery | (112,668) | - | (112,668) | (112,668) | - |
| | \$ 21,745,969 | \$ 1,076,358 | \$ 20,669,611 | \$ 9,411,342 | \$ 11,258,269 |

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Passport Potash Inc.
(An Exploration Stage Company)
Notes to the consolidated financial statements - unaudited
(Expressed in United States dollars)
For the six months ended August 31, 2013

NOTE 3 UNPROVEN MINERAL PROPERTIES

The Company acquired mineral claims in the Holbrook Basin Project through the following agreements:

Holbrook Basin Property, Arizona

On September 30, 2008, as amended, the Company entered into an option agreement to purchase 100% of certain mining claims located in the Holbrook Basin region of Arizona, USA, for the following considerations:

- a) \$100,000 on execution of the agreement (paid);
- b) 1,000,000 options (issued with a fair value of \$61,152) upon receipt of TSX-V approval of the agreement;
- c) \$125,000 ninety days following issuance of a drill permit from the Arizona State Land Department (paid);
- d) 250,000 shares on April 1, 2009 (issued with a fair value of \$26,988);
- e) 2,681,000 shares on October 1, 2009 (issued with a fair value of \$217,064);
- f) 5,000,000 shares on November 1, 2010 (issued with a fair value of \$262,274);
- g) \$350,000 six months following TSX-V approval of the issuance of 5,000,000 shares (paid);
- h) Funding of \$200,000 in exploration expenditures pursuant to the completion of a NI 43-101 technical report (completed);
- i) 250,000 shares upon completion of a NI 43-101 technical report after drilling (issued with a fair value of \$45,595); and
- j) During the year ended February 29, 2012, the Company purchased the 1% Net Smelter Royalty (NSR) for \$1 million.

The Company now has a 100% interest, with no NSR, in the Holbrook Basin Property.

At August 31, 2013, the Company had a reclamation bond of \$15,000 (February 28, 2013: \$15,000) for work done on the Holbrook Basin Property.

Twin Butte Ranch, Arizona

A. Twin Butte Ranch

On August 28, 2009, as amended, the Company entered into a four year lease with an option to purchase private deeded land within the Holbrook Basin. Under the terms of the agreement the Company can earn a 100% undivided interest in the deeded land and sub-surface mineral rights by making lease payments totaling \$1,250,000 over five and a half years and, upon exercising its option to purchase, by paying \$20,000,000 for the entire Twin Butte Ranch including all sub-surface mineral rights except those pertaining to oil and gas, petrified wood and geothermal resources. There are no royalties associated with the sub-surface mineral rights.

Details of the payments under the agreement are as follows:

- a) A payment of \$50,000 and \$10,000 legal costs on or before November 26, 2009 (paid);
- b) A payment of \$25,000 on September 17, 2010 (paid);
- c) A payment of \$75,000 on December 1, 2010 (paid);
- d) A payment of \$150,000 on August 28, 2011 (paid);
- e) A payment of \$200,000 on August 28, 2012 (paid);

- f) A payment of \$250,000 on earlier December 1, 2013 or within thirty days of closing a financing of at least \$5,000,000;
- g) A payment of \$250,000 on August 28, 2014; and
- h) A payment of \$250,000 on May 1, 2015.

Upon exercising its option to purchase the entire Twin Butte Ranch, the Company must deliver a payment in the amount of \$20,000,000 on or before February 5, 2016.

Passport Potash Inc.

(An Exploration Stage Company)

Notes to the consolidated financial statements - unaudited

(Expressed in United States dollars)

For the six months ended August 31, 2013

NOTE 3 UNPROVEN MINERAL PROPERTIES (Cont d)

The lease agreement and purchase option will expire on January 6, 2016 or such other time as is mutually acceptable and agreed to in writing by both parties.

Fitzgerald Ranch, Arizona

On May 7, 2012, as amended, the Company entered into an agreement to acquire the Fitzgerald Ranch for \$17,000,000 as follows:

- a) A down payment of \$500,000 (paid) (\$25,000 was expensed in the year ended February 29, 2012, and the remainder is included in long-term deposits);
- b) A payment of \$500,000 (paid) upon execution of an amendment to the agreement in November 2012 (included in long-term deposits);
- c) A payment of \$500,000 to be paid on the earlier of either October 31, 2013, or within 30 days of closing the Company's next financing;
- d) A payment of \$500,000 to be paid on or before December 31, 2013;
- e) A payment of \$1,000,000 to be paid on or before December 31, 2014; and
- f) The balance of \$14,000,000 to be paid on the closing of the sale which is on or before June 30, 2015.

American Potash Property, Arizona

On November 12, 2010, the Company entered into an option agreement to acquire 100% of the right, title and interest in exploration permits within the Holbrook basin for the following consideration:

- a) 500,000 shares of the Company to be issued on the earlier of December 15, 2010 or within five business days of the TSX-V acceptance date (issued with a fair value of \$130,444);
 - b) Three cash payments of \$30,000 each with 12, 18, and 24 months of the acceptance date (\$30,000 paid during the year ended February 29, 2012 and \$60,000 paid during the year ended February 28, 2013); and
 - c) All taxes assessed against the property and minimum exploration work to keep the claims in good standing.
- The Company purchased the 2% NSR during March, 2012 for \$300,000.

The Company now has a 100% interest, with no NSR, in the American Potash Property.

Mesa Uranium, Arizona

On August 31, 2010, the Company entered into an agreement to acquire 100% undivided interest in exploration permits within the Holbrook basin for the following consideration:

- a) 500,000 shares of the Company upon TSX-V approval (issued with a fair value of \$40,625);
- b) \$20,000 within 90 days of the completion of next financing after the agreement date (paid);
- c) Minimum exploration expenditures of \$19,518 in 2010 as required by the Arizona State Land Department (expended); and
- d) Maximum available assessment work credits or payments in lieu of the minimum requirements to keep the claims in good standing.

Upon completion of all terms above, the Company shall have earned a 75% interest and title of the permits shall be transferred to the Company (Earned). The Company can purchase the remaining 25% interest by paying \$100,000 cash, share equivalent or work expenditures (Expended). The property is subject to a 2% NSR and the Company can purchase the NSR at a price of \$300,000 for the full 2%. During the year ended February 29, 2012, the Company purchased the 2% NSR for \$300,000.

The Company now has a 100% interest, with no NSR, in the Mesa Property.

Passport Potash Inc.

(An Exploration Stage Company)

Notes to the consolidated financial statements - unaudited

(Expressed in United States dollars)

For the six months ended August 31, 2013

NOTE 3 UNPROVEN MINERAL PROPERTIES (Cont d)

Ringbolt Property, Arizona

On March 28, 2011 the Company entered into an option agreement to acquire 90% undivided legal and beneficial interest in and to the Ringbolt Property free and clear of all encumbrances in exploration leases for the following consideration:

- a) \$50,000 upon execution of the agreement (paid);
- b) \$250,000 upon TSX-V approval on May 17, 2011 (paid) and 1,000,000 common shares (issued with a fair value of \$669,384);
- c) Minimum exploration expenditures within 1 year of TSX-V approval of \$500,000 (completed);
- d) On or before the first anniversary of TSX-V approval \$350,000 and 1,400,000 common shares (see below);
- e) Minimum exploration expenditures within first year of first anniversary of TSX-V approval of \$750,000;
- f) \$350,000 upon second anniversary of TSX-V approval and 1,600,000 common shares; and
- g) Minimum exploration expenditures within 1 year of second anniversary of TSX-V approval of \$1,000,000.

On completion of all terms above, the Company shall have earned a 90% interest and title of the permits shall be transferred to the Company. Upon exercise of the option agreement, the Company shall be deemed to be granted an option to purchase the remaining 10% interest in the Property for the payment of \$5,000,000.

The Company paid a finder's fee of \$25,825 to a third party in connection with this option agreement.

During the year ended February 28, 2013, the Company became the subject to a civil action in the Third Judicial District court, Salt Lake County, State of Utah in connection with the Ringbolt Property option agreement. The optionors were seeking payment of \$350,000, 1,400,000 of the Company's shares and \$20,716 in expenses related to the property, alternatively damages of \$644,000. The Company did not make the required payment and did not issue the shares to the optionors as it contended that the optionors were in default of the option agreement. The Company counter claimed for specific performance under the option agreement and paid the \$350,000 and issued the 1,400,000 shares into the Utah court.

The court ruled that tender to the court was not sufficient; therefore, the cash and shares were released to the optionors on July 10, 2012. The fair value of the 1,400,000 shares was \$271,936. The Company deposited a bond in the amount of \$350,000 with the Court as security for the preliminary injunction, which was disclosed on the balance sheet as Injunction Bond. Subsequent to February 28, 2013, the amount deposited was refunded to the Company. On September 10, 2012, the court granted the motion for a preliminary injunction, which enjoined the optionors from terminating the Ringbolt option agreement based upon the grounds alleged by the optionors.

On October 30, 2012 the Company entered into an amended option agreement (the Amendment Agreement) to acquire 100% undivided legal and beneficial interest in and to the Ringbolt Property, free and clear of all encumbrances in exploration leases, according to the following terms:

1. The Company will pay to the optionors a total of \$3,850,000 according to the following schedule:
 - a) \$150,000 upon execution of the Amendment Agreement (paid);
 - b) \$2,450,000 upon TSX-V approval (paid); and

- c) \$1,250,000 on or before October 31, 2014.
- 2. The Company will issue 750,000 common shares to the optionors upon TSX-V approval (issued with a fair value of \$168,291).

Passport Potash Inc.

(An Exploration Stage Company)

Notes to the consolidated financial statements - unaudited

(Expressed in United States dollars)

For the six months ended August 31, 2013

NOTE 3 UNPROVEN MINERAL PROPERTIES (Cont d)

Ringbolt Property, Arizona (Cont d)

3. Upon written notice from the TSX-V that the Amendment Agreement has been approved, the parties shall simultaneously do the following:
 - a) The optionors shall assign all of their right, title, and interest in and to the Ringbolt Property and will take all necessary action with the Arizona State Land Department to effect such assignment (completed); and
 - b) The Company will place into escrow on behalf of the optionors the \$2,450,000 cash payment and the 750,000 common shares of the Company. The cash payment and shares will be released to the optionors upon receipt of confirmation of the assignment of the Ringbolt Property to the Company (completed).
4. There will be no royalty attached to the transferred permits.
5. Should the Company sell or in any way transfer its interest in the Ringbolt Property, the optionors will receive a bonus payment in accordance with the following schedule:
 - a) If the Company receives less than \$30 million for the transaction, then no bonus payment shall be payable;
 - b) If the Company receives greater than \$30 million but less than \$40 million the optionors would receive 20% of the gross consideration in excess of \$30 million;
 - c) If the Company receives greater than \$40 million but less than \$50 million the optionors would receive \$2,000,000 plus 10% of the gross consideration in excess of \$40 million, to a maximum of \$1,000,000; or
 - d) If the Company receives greater than \$50 million the optionors would receive \$3,000,000 plus 20% of the gross consideration received in excess of \$50 million.

Based upon the foregoing, the parties have agreed to a mutual release and settlement of any claims and causes of action between the parties as of the date of the Amended Agreement.

On December 8, 2012, the Company entered into a second amendment to the option agreement to acquire 100% of the Ringbolt Property. The amendment stipulates that in the event that the cash payment of \$2,450,000 following TSX-V approval of the Amendment Agreement is delayed, the parties agree to extend the payment deadline for a period of 30 days from the date of final approval from the TSX-V with the payment of \$100,000 to one of the optionors with this extension payment to be deducted from the \$2,450,000 payment due following TSX-V approval. A payment of \$100,000 was made to the optionor on December 20, 2012 and the balance of \$2,350,000 on February, 28 2013.

Joint Exploration Agreement HNZ Potash, LLC (HNZ)

On July 27, 2012 the Company entered into a Joint Exploration Agreement in which the Company assigned 50% of their interest in twenty-one permitted parcels within the Holbrook Basin Project (from Holbrook Basin Property and Twin Buttes Ranch above) to HNZ. In return, HNZ reimbursed the Company for 50% of mineral exploration costs previously incurred on the permits, (\$112,668 received during the year ended February 28, 2013), and the Company will be liable for 50% of the future costs relating to the permits.

Passport Potash Inc.
(An Exploration Stage Company)
Notes to the consolidated financial statements - unaudited
(Expressed in United States dollars)
For the six months ended August 31, 2013

NOTE 4 CONVERTIBLE DEBENTURES

Issued during the six month period ended August 31, 2013

Tranche II

On March 14, 2013, the Company borrowed \$285,000 from four lenders by way of convertible debentures (a Debenture) having a term until March 14, 2014 (the Maturity Date) and bearing interest at 15% per annum which shall accrue and be payable on the earlier of the Maturity Date, or the date the entire principal amount of each Debenture is converted. The principal amount of the Debentures is convertible into shares of common stock of the Company at the option of the holder, in whole or in part, at a price of US\$0.19 per share until the Maturity Date. The Debentures are secured by a first ranking floating charge security on all of the Company s assets.

In addition each holder of a Debenture received five common share purchase warrants for each US\$1.00 of principal amount of the Debenture, entitling the holder to acquire one share of common stock of the Company for each warrant at an exercise price of US\$0.19 per share for a period of one year from the date of issuance resulting in the Company issuing 1,425,000 warrants with an exercise price of US\$0.19 for one year. The Company determined the fair value of the warrants to be \$130,826 using the Black-Scholes Option Pricing Model with the following assumptions: Expected dividend yield 0; Expected stock price volatility 75%; Risk-free interest rate 0.97%; Expected life 1 year.

The proceeds were allocated to the Debenture and the warrants based on their relative fair values and accordingly, \$195,334 was allocated to the Debenture and \$89,666 was allocated to the warrants and recorded as a reduction in the liability and an increase in additional paid-in capital.

In accordance with ASC 470-20 Debt with Conversion and Other Options , the Company recognized the value of the embedded beneficial conversion feature of \$164,666. This value was recorded as a reduction of the liability and an increase in additional paid-in capital.

In connection with this private placement of debentures, the Company also incurred filing fee costs of \$1,425. Of the total issuance costs incurred, \$353 was recorded as deferred debt issuance costs and \$1,272 was charged to additional paid-in capital.

Tranche III

On April 4, 2013, the Company borrowed \$200,000 from two lenders by way of convertible debentures (a Debenture) having a term until April 4, 2014 (the Maturity Date) and bearing interest at 15% per annum which shall accrue and be payable on the earlier of the Maturity Date, or the date the entire principal amount of each Debenture is converted. The principal amount of the Debentures is convertible into shares of common stock of the Company at the option of the holder, in whole or in part, at a price of US\$0.19 per share until the Maturity Date. The Debentures are secured by a first ranking floating charge security on all of the Company s assets.

In addition each holder of a Debenture received five common share purchase warrants for each US\$1.00 of principal amount of the Debenture, entitling the holder to acquire one share of common stock of the Company for each warrant at an exercise price of US\$0.19 per share for a period of one year from the date of issuance resulting in the Company issuing 1,000,000 warrants with an exercise price of US\$0.19 for one year. The Company determined the fair value of

the warrants to be \$62,896 using the Black-Scholes Option Pricing Model with the following assumptions: Expected dividend yield 0; Expected stock price volatility 75%; Risk-free interest rate 0.97%; Expected life 1 year.

The proceeds were allocated to the Debenture and the warrants based on their relative fair values and accordingly, \$152,151 was allocated to the Debenture and \$47,849 was allocated to the warrants and recorded as a reduction in the liability and an increase in additional paid-in capital.

Passport Potash Inc.
(An Exploration Stage Company)
Notes to the consolidated financial statements - unaudited
(Expressed in United States dollars)
For the six months ended August 31, 2013

NOTE 4 CONVERTIBLE DEBENTURES (Cont d)

Issued during the three month period ended May 31, 2013 (Cont d)

Tranche III (Cont d)

The Company recognized the value of the embedded beneficial conversion feature of \$58,375. This value was recorded as a reduction of the liability and an increase in additional paid-in capital.

In connection with this private placement of debentures, the Company also incurred filing fee costs of \$1,070. Of the total issuance costs incurred, \$502 was recorded as deferred debt issuance costs and \$568 was charged to additional paid-in capital.

Issued during the year ended February 28, 2013

Tranche I

On February 19, 2013, the Company borrowed \$5,305,540 from twenty four lenders by way of convertible debentures (a Debenture) having a term until February 19, 2014 (the Maturity Date) and bearing interest at 15% per annum which shall accrue and be payable on the earlier of the Maturity Date, or the date the entire principal amount of each Debenture is converted. The principal amount of the Debentures is convertible into shares of common stock of the Company at the option of the holder, in whole or in part, at a price of US\$0.19 per share until the Maturity Date. The Debentures are secured by a first ranking floating charge security on all of the Company's assets.

In addition each holder of a Debenture received five common share purchase warrants for each US\$1.00 of principal amount of the Debenture, entitling the holder to acquire one share of common stock of the Company for each warrant at an exercise price of US\$0.19 per share for a period of one year from the date of issuance resulting in the Company issuing 26,527,700 warrants with an exercise price of US\$0.19 for one year. The Company determined the fair value of the warrants to be \$2,049,578 using the Black-Scholes Option Pricing Model with the following assumptions: Expected dividend yield 0; Expected stock price volatility 76%; Risk-free interest rate 1.07%; Expected life 1 year.

The proceeds were allocated to the Debenture and the warrants based on their relative fair values and accordingly, \$3,827,098 was allocated to the Debenture and \$1,478,442 was allocated to the warrants and recorded as a reduction in the liability and an increase in additional paid-in capital.

The Company recognized the value of the embedded beneficial conversion feature of \$2,316,159. This value was recorded as a reduction of the liability and an increase in additional paid-in capital.

In connection with this private placement of debentures, the Company paid \$73,958 in finder's fees and issued 101,882 finder's warrants. Each finder's warrant entitles the holder to purchase one common share for US\$0.19 per share for one year from the date of issuance. The fair value of the finder's warrant portion calculated using the Black-Scholes Option Pricing Model was \$5,770, recorded as a Debenture issuance cost. The Company also incurred legal and filing fee costs of \$51,528. Of the total issuance costs incurred, \$37,380 was recorded as deferred debt issuance costs and \$93,876 was charged to additional paid-in capital.

Passport Potash Inc.
 (An Exploration Stage Company)
 Notes to the consolidated financial statements - unaudited
 (Expressed in United States dollars)
 For the six months ended August 31, 2013

NOTE 4 CONVERTIBLE DEBENTURES (Cont d)

| | Six months ended | Year ended |
|---|-------------------------|---------------------|
| | August 31, | February 28, |
| | 2013 | 2013 |
| Convertible Debenture | | |
| Balance, beginning | \$ 1,624,128 | \$ - |
| Subscriptions received | 485,000 | 5,305,540 |
| Subscriptions allocated to detachable share purchase warrants | (137,515) | (1,478,442) |
| Intrinsic beneficial conversion feature | (223,041) | (2,316,159) |
| Exercised Transfer to Share Capital | (5,000) | - |
| Accretion | 2,076,400 | 93,566 |
| Interest | 432,947 | 19,623 |
| Balance, ending | \$ 4,252,919 | \$ 1,624,128 |

The difference between the amount recorded to the Debentures on initial recognition and the value at Maturity will be accreted using the effective interest rate method. During the six month period ended August 31, 2013, \$2,076,400 (year ended February 28, 2013 - \$93,566), was expensed as a non-cash interest charge.

NOTE 5 RELATED PARTY TRANSACTIONS Related party balances

The following amounts due to related parties are included in trade payables and accrued liabilities:

| | August 31, | February 28, |
|--|-------------------|---------------------|
| | 2013 | 2013 |
| Directors and companies controlled by directors of the Company | \$ 593,478 | \$ 173,025 |
| | \$ 593,478 | \$ 173,025 |

The following amounts due from related parties are included in amounts receivable:

| | August 31, | February 28, |
|--|-------------------|---------------------|
| | 2013 | 2013 |
| Companies controlled by directors of the Company | \$ 10,613 | \$ 10,890 |
| | \$ 10,613 | \$ 10,890 |

Related party transactions

The Company incurred the following transactions with directors, officers and companies that are controlled by directors and officers of the Company. The amounts include \$368,905 Stock-based compensation issued during the period.

| | Six month period ended | |
|----------------|-------------------------------|-------------------|
| | August 31, | August 31, |
| | 2013 | 2012 |
| Administration | \$ 54,266 | \$ 15,401 |

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| | | | |
|---------------------------|--------------|----|---------|
| Consulting fees | 307,070 | | 258,177 |
| Management fees | 412,116 | | 337,044 |
| Mineral exploration costs | 504,034 | | 190,200 |
| | \$ 1,277,486 | \$ | 800,822 |

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Passport Potash Inc.
 (An Exploration Stage Company)
 Notes to the consolidated financial statements - unaudited
 (Expressed in United States dollars)
 For the six months ended August 31, 2013

NOTE 6 COMMON STOCK Share Issuances:

On July 2, 2013 26,315 shares were issued pursuant to \$5,000 Convertible Debentures being converted to shares. On March 18, 2013 41,666 warrants were exercised at CDN\$0.20 per share for proceeds of US\$8,157.

Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 20% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities position.

The changes in options during the six month period ended August 31, 2013 are as follows:

| | Six month period ended August 31, 2013 | | Weighted average exercise price (CDN\$) |
|--|---|----|--|
| | Number of options | | |
| Options outstanding, February 28, 2013 | 18,279,892 | \$ | 0.31 |
| Options granted | 2,530,000 | \$ | 0.18 |
| Options exercised | - | | - |
| Options forfeited | (2,476,267) | \$ | 0.29 |
| Options outstanding, August 31, 2013 | 18,333,625 | \$ | 0.29 |
| Options exercisable, August 31, 2013 | 18,333,625 | \$ | 0.29 |

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Passport Potash Inc.
 (An Exploration Stage Company)
 Notes to the consolidated financial statements - unaudited
 (Expressed in United States dollars)
 For the six months ended August 31, 2013
NOTE 6 COMMON STOCK (Cont d)

Stock options (Cont d)

At August 31, 2013 the following stock options were outstanding:

| Number of Options | Exercise price CDN\$ | Expiry date |
|----------------------|-------------------------|--------------------|
| 145,625 | 0.10 | November 16, 2015 |
| 1,450,000 | 0.32 | January 10, 2016 |
| 5,027,000 | 0.20 | February 11, 2016 |
| 921,500 | 0.20 | March 03, 2016 |
| 1,501,000 | 0.59 | June 21, 2016 |
| 1,490,500 | 0.42 | September 12, 2016 |
| 3,800,000 | 0.38 | January 20, 2017 |
| 1,468,000 | 0.21 | February 19, 2018 |
| 2,530,000 | 0.21 | July 02, 2018 |
| 18,333,625 | | |

The weighted average remaining contractual life of the outstanding stock options is 3.21 years.

Share purchase warrants

The following table summarizes the continuity of the Company's share purchase warrants:

| | Number of warrants |
|--------------------------------|--------------------|
| Balance, February 29, 2012 | 50,800,333 |
| Issued with private placements | 27,751,608 |
| Exercised | (9,602,701) |
| Expired | (20,364,428) |
| Balance, February 28, 2013 | 48,584,812 |
| Issued with debentures | 2,425,000 |
| Exercised | (41,666) |
| Balance, August 31, 2013 | 50,968,146 |

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Passport Potash Inc.
 (An Exploration Stage Company)
 Notes to the consolidated financial statements - unaudited
 (Expressed in United States dollars)
 For the six months ended August 31, 2013
NOTE 6 COMMON STOCK (Cont d)

Share purchase warrants (Cont d)

At August 31, 2013 the following share purchase warrants were outstanding:

| Number of warrants | Exercise price | | Expiry date |
|--------------------|----------------|-------|-------------------|
| | CDN\$ | USD\$ | |
| 20,791,538 | 0.20 | | January 11, 2014 |
| 1,122,026 | 0.25 | | February 19, 2018 |
| 26,629,582 | | 0.19 | February 19, 2014 |
| 1,425,000 | | 0.19 | March 14, 2014 |
| 1,000,000 | | 0.19 | April 04, 2014 |
| 50,968,146 | | | |

NOTE 7 DERIVATIVE LIABILITY

| | Six months ended August 31, 2013 | Year ended February 28, 2013 |
|----------------------------------|--|------------------------------------|
| Balance, beginning | \$ 1,619,786 | \$ 6,374,170 |
| Fair value of warrants issued | - | 216,796 |
| Fair value of warrants exercised | (2,813) | (751,691) |
| Fair value change of warrants | (1,511,513) | (4,219,489) |
| Balance, ending | \$ 105,460 | \$ 1,619,786 |

The derivative liability consists of the fair value of share purchase warrants that were issued in unit private placements that have an exercise price in a currency (Canadian dollars) other than the functional currency of the Company. The derivative liability is a non-cash liability and the Company is not required to expend any cash to settle this liability.

Details of these warrants and their fair values are as follows:

| | Exercise Price (\$CDN) | August 31, 2013 | | February 28, 2013 | |
|-------------------------|---------------------------|-----------------------|------------|-----------------------|--------------|
| | | Number Outstanding | Fair Value | Number Outstanding | Fair Value |
| January \$ 11, 2012 | 0.20 | 20,791,538 | \$ 29,860 | 20,833,204 | \$ 1,406,500 |
| February \$ 19, 2013 | 0.25 | 1,112,499 | 75,600 | 1,112,499 | 213,286 |
| | | 21,904,037 | \$ 105,460 | 21,945,703 | \$ 1,619,786 |

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Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations

The following discussion of our financial condition, changes in financial condition and results of operations for the three and six months ended August 31, 2013 and 2012 should be read in conjunction with our unaudited interim consolidated financial statements and related notes for the three and six months ended August 31, 2013 and 2012. The following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under the section entitled "Risk Factors" in our annual report on Form 10-K for the fiscal year ended February 28, 2013 filed with the SEC on May 31, 2013.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's February 28, 2013 audited financial statements, which were attached to our annual report on Form 10-K for the fiscal year ended February 28, 2013 filed with the SEC on May 31, 2013. The results of operations for the periods ended August 31, 2013 and the same period last year are not necessarily indicative of the operating results for the full years.

Overview of our Business

We were incorporated on July 31, 1987 under the laws of Québec, Canada under the name Bakertalc Inc. On January 21, 1994, we changed our name to Palace Explorations Inc. On November 11, 1996, we changed our name to X-Chequer Resources Inc. On September 29, 2004 we changed our name to International X-Chequer Resources Inc. On October 18, 2007, we changed our name to Passport Metals Inc. On November 10, 2009 we changed our name to Passport Potash Inc. Effective April 26, 2011, we continued our governing corporate jurisdiction from the Province of Québec to the Province of British Columbia under the name Passport Potash Inc.

We are an exploration stage company engaged in the acquisition, exploration and development of mineral resource properties. We currently have an interest in or have the right to earn an interest in six properties: Southwest Exploration Property, Twin Buttes Ranch, Sweetwater/American Potash, Mesa Uranium, Ringbolt Property and Fitzgerald Ranch (the Holbrook Basin properties), which are all located in Arizona. We have not established any proven or probable reserves on our mineral property interests and we are not in actual development or production of any mineral deposit at this time. We are an exploration stage enterprise, as defined in FASB ASC 915 *Development Stage Entities*.

Our principal focus is our Holbrook Basin potash project (the Holbrook Basin Project) comprised of exploration permits and claims, some of which we hold directly and others which are subject to option, a lease over with an option to purchase the Twin Buttes Ranch property, and a purchase agreement for the Fitzgerald Ranch property. Our interest in our Holbrook Basin Project is comprised of 87 Arizona State Land Department exploration permits, full or partial interests in 132 private land sections and 4 prospecting permits on federal land managed by the Bureau of Land Management, which are all located within the Holbrook Basin.

Subsidiaries

We have one wholly owned subsidiary, PPI Holding Corporation, an Arizona corporation.

Mineral Properties/Agreements

Southwest Exploration Property

On September 30, 2008 we entered into a mineral property option agreement (the Southwest Option Agreement) with Southwest Exploration Inc. (Southwest) to acquire an undivided 100% interest in 13 Arizona State Land Department exploration permits (ASLD Exploration Permits) comprising 8,413.3 acres (3,404.76 ha) of mineral exploration property located in Navajo County, in the Holbrook Basin, Arizona. Under the terms of the Southwest Option Agreement, any after acquired permits within the area of common interest may be made part of the property. Pursuant to this clause, 32 additional ASLD Exploration Permits were made part of the property for a total of 45 ASLD Exploration Permits.

Under the terms of the Southwest Option Agreement, as amended, we could acquire a 100% interest in the Southwest mining claims, subject to a 1% NSR retained by Southwest, in exchange for the following considerations:

- (a) \$100,000 on execution of the agreement (paid);
- (b) 1,000,000 options (issued) upon receipt of TSX-V approval of the agreement;
- (c) \$125,000 from 90 days following issuance of a drilling permit from the Arizona State Land Department. This permit was received on June 11, 2009 and \$125,000 was paid July 23, 2009;
- (d) 250,000 shares on April 1, 2009 (issued);
- (e) 2,681,000 shares on October 1, 2009 (issued);
- (f) 5,000,000 shares on November 1, 2010 (issued);
- (g) \$350,000 from six months following TSX-V approval of the issuance of 5,000,000 shares (paid);
- (h) Funding of \$200,000 in exploration expenditures pursuant to the completion of a NI 43-101 technical report (completed);
- (i) 250,000 shares upon completion of a NI 43-101 technical report after drilling (issued); and
- (j) Southwest shall retain a 1% NSR (purchased by the Company).

Currently, we have a blanket bond with the Arizona State Land Department in the amount of \$15,000 for the ASLD Exploration Permits. In addition, we also have a bond with the Arizona Oil and Gas Conservation Commission in the amount of \$55,000 for drilling permits.

We entered into an amendment to the Southwest Option Agreement, dated September 18, 2009, whereby the parties agreed to settle the October 1, 2009 scheduled cash payment of \$225,000 with the issuance of 2,681,000 shares of the Company.

We entered into a second amendment to the Southwest Option Agreement, dated April 1, 2010, whereby the parties agreed to extend the due date for the payment of \$250,000 to Southwest until October 1, 2010. As we had not satisfied this payment obligation by October 1, 2010, we issued 5,000,000 shares of our common stock to Southwest on November 8, 2010 in full satisfaction of the outstanding payment.

We completed the exercise of our option to purchase the 100% interest in the Southwest claims and the purchase of the 1% net smelter royalty in an agreement dated February 13, 2012. The Southwest permits are held by PPI Holding Corporation, our wholly owned Arizona subsidiary.

Twin Buttes Ranch Property

On August 28, 2009, we entered into a four-year option agreement (the Option Agreement) with Twin Buttes Ranch, LLC to purchase the Twin Buttes Ranch located in the potash-bearing Holbrook Basin of east-central Arizona. The Twin Buttes Ranch comprises some 28,526 acres (11,544 hectares) of private deeded land with 76.7% or approximately 21,894 acres (8,860 hectares) overlying the potash horizons within the Holbrook Basin.

Under the terms of the Option Agreement, we acquired the option to purchase a 100% undivided interest in the deeded land and sub-surface mineral rights comprising the Twin Buttes Ranch property by making option payments totaling \$500,000 over a four year period and, upon exercising our option to purchase, by paying \$20,000,000 for the entire Twin Buttes Ranch including all sub-surface mineral rights except those pertaining to oil and gas, petrified wood and geothermal resources. There are no royalties associated with the sub-surface mineral rights.

On December 4, 2009, we entered into an amendment to the Option Agreement whereby we signed a mining lease with Twin Buttes Ranch, LLC on the Twin Buttes Ranch with a term from December 4, 2009 through August 28, 2013 subject to early termination as provided in the lease and the Option Agreement. Under the mining lease, we are entitled to explore, develop, mine, remove, treat and produce all ores, minerals and metals on Twin Buttes Ranch solely for the purpose of determining the existence of potash and the economic feasibility of the purchase and development of the property. In consideration, we shall remain current in our option payments under the Option Agreement and keep all terms of the Option Agreement in good standing.

On September 7, 2010, we amended the terms of the Option Agreement to provide for an extension of a portion of the initial cash payment until December 1, 2010.

On August 20, 2013, we further amended the Option Agreement to extend the term of the option agreement from August 28, 2013 to January 6, 2016 and provide for the payments of (i) \$250,000 on the earlier of (a) within 30 days of closing our next round of financing which is a minimum \$5 million, or (b) December 1, 2013 (this payment obligation survives any early termination of the Option Agreement by us or a termination resulting from an uncured breach by us), (ii) \$250,000 on August 28, 2014; and (iii) \$250,000 on May 1, 2015.

Concurrently with the amendment to the Option Agreement, we also amended the mining lease to provide that the term of the lease will end on the expiration or earlier termination of the Option Agreement, except in the event that we exercise our option pursuant to the Option Agreement in which event the term shall end on the closing date of the Option Agreement, and any subsequent amendments thereto.

Details of the payments under the Option Agreement, as amended, are as follows:

- (a) A payment of \$50,000 and \$10,000 legal costs on or before November 26, 2009 (paid);
- (b) A payment of \$25,000 on September 17, 2010 (paid);
- (c) A payment of \$75,000 on December 1, 2010 (paid);
- (d) A payment of \$150,000 on August 28, 2011 (paid);
- (e) A payment of \$200,000 on August 28, 2012 (paid);
- (f) A payment of \$250,000 on the earlier of (a) within 30 days of closing our next round of financing which is a minimum \$5 million, or (b) December 1, 2013;
- (g) A payment of \$250,000 on August 28, 2014;
- (h) A payment of \$250,000 on May 1, 2015; and
- (i) Upon exercising our option to purchase the entire Twin Butte Ranch, we must deliver a certified check in the amount of \$1,000 on or before 5pm (Arizona time), January 6, 2016 (the option expiry date), followed by a payment of \$19,999,000 within thirty days.

All required payments to date have been made and the option is in good standing.

Sweetwater/American Potash Property

On November 12, 2010 we entered into an option of Arizona exploration leases (the Sweetwater Option Agreement) with Sweetwater River Resources, LLC (Sweetwater) and American Potash, LLC (American Potash) to acquire the right, title and interest in five mineral exploration permits within the Holbrook Basin. The five permits consist of Arizona State Land Department exploration permits that cover more than 3,200 acres.

Pursuant to the terms of the Sweetwater Option Agreement, we could acquire a 100% interest in the exploration permits for the consideration of: (i) issuing 500,000 shares of our common stock by December 15, 2010; (ii) cash payment of CAD\$90,000 payable in three installments of \$30,000 each at 12 months, 18 months and 24 months from the date of signing the Sweetwater Option Agreement; and (iii) meeting the exploration expenditures a required by the Arizona State Land Department. We are responsible for payment of all exploration expenditures on the permits. Pursuant to the Sweetwater Option Agreement, the property was subject to a 2% net smelter royalty in favor of American Potash which we had the option to purchase at a price of \$150,000 for 1% or \$300,000 for the full 2%.

On March 27, 2012, we completed the exercise of the option under the Sweetwater Option Agreement and the repurchase of the 2% NSR royalty in respect of the Sweetwater exploration permits. The permits are held by PPI Holding Corporation, our wholly owned subsidiary.

Mesa Uranium Property

On August 31, 2010 we entered into a mineral property option agreement (the Mesa Option Agreement) with Mesa Uranium Corp. (Mesa) in respect of three Arizona State Land Department exploration permits covering approximately 1,950 acres, which are wholly owned by Mesa. Pursuant to the terms of the agreement, we had the right to acquire a 75% interest in the Mesa permits in consideration for the issuance of 500,000 shares of our common stock to Mesa, the payment of \$20,000.00 cash to Mesa and meeting the minimum exploration expenditures as required by the Arizona State Land Department. Upon earning a 75% interest in the permits, we had the right to acquire the remaining 25% interest in the Mesa permits by paying \$100,000 in cash, stock equivalent or work expenditures. Under the terms of the agreement, we are responsible for payment of all exploration expenditures on the leases. The property was subject to a 2% net smelter royalty which we had the option to purchase at a price of \$150,000 per 1% or \$300,000 for

the full 2%.

On February 13, 2012, we exercised our option to acquire a 75% interest in the Mesa permits. On March 9, 2012, we announced that we had exercised our option to acquire the remaining 25% interest in the Mesa properties under the Mesa Option Agreement and to acquire the 2% NSR on those properties thereby acquiring a royalty-free, 100% interest in the Mesa properties. The permits are held by PPI Holding Corporation, our wholly owned subsidiary.

Ringbolt Property

On March 28, 2011 we entered into an option agreement (the *Ringbolt Option Agreement*) with Ringbolt Ventures Ltd., Potash Green, LLC, Wendy Walker Tibbetts and Joseph J. Hansen (collectively, the *Optionor*) pursuant to which we acquired the right to acquire a 100% interest in the Ringbolt potash property located in the Holbrook Basin of southeast Arizona. The Ringbolt property is comprised of 15,994.32 acres of mineral exploration permits on land managed by the Arizona State Land Department.

Pursuant to the terms of the Ringbolt Option Agreement, we may acquire a 90% interest in the property by: (i) making cash payments totaling \$1.0 million (\$50,000 upon execution of the agreement, \$250,000 upon TSX Venture Exchange approval, \$350,000 on or before the 1st anniversary of TSX Venture Exchange approval, and \$350,000 on or before the 2nd anniversary of TSX Venture Exchange approval), (ii) incurring a total of \$2.25 million in exploration expenditures on the property over three years (\$500,000 within 1 year of TSX Venture Exchange approval, \$750,000 within 1 year of the 1st anniversary of TSX Venture Exchange approval, and \$1,000,000 within 1 year of the 2nd anniversary of TSX Venture Exchange approval), and (iii) issuing four million common shares over a three-year period (1,000,000 shares upon TSX Venture Exchange approval, 1,400,000 shares on or before the 1st anniversary of TSX Venture Exchange approval, and 1,600,000 shares on or before the 2nd anniversary of TSX Venture Exchange approval). Upon satisfaction of these terms, we will have the right to purchase the remaining 10% interest for a cash payment of \$5 million, which shall remain exercisable until the Ringbolt property goes into commercial production (defined as the sale of any mineral products from the property). In addition, pursuant to the Ringbolt Option Agreement, the Ringbolt property will be subject to a 1% gross overriding royalty on production from the property.

On October 30, 2012, as part of a settlement agreement between us and the Optionor, we entered into an amendment agreement to the Ringbolt Option Agreement pursuant to which we will pay to the Optionor a total of \$3,850,000, \$150,000 of which was paid upon execution of the amendment agreement, \$2,450,000 will be paid upon TSX Ventures Exchange approval of the amendment agreement, and the remaining \$1,250,000 on or before October 31, 2014. In addition, upon TSX Venture Exchange approval of the amendment agreement, we will issue 750,000 shares of common stock to the Optionor and the Optionor will assign to us all of its right, title and interest in and to the property and will take all necessary action with the ASLD to effect such assignment. The cash payment of \$2,450,000 and 750,000 shares of our common stock will be placed into escrow and will be released to the Optionor upon receipt of confirmation of the assignment of the property to us from the ASLD. There will be no royalty attached to the transferred mineral exploration permits.

Should we sell or in any way transfer our interest in the property, the Optionor will receive 20% of the gross consideration in excess of \$30 million to a maximum of \$2,000,000 if the aggregate consideration received for the transfer of the interest in the property is greater than \$30 million and less than \$40 million; or \$2,000,000 plus 10% of the gross consideration in excess of \$40 million to a maximum of \$1,000,000 if the aggregate consideration is greater than \$40 million and less than \$50 million; or \$3,000,000 plus 20% of the gross consideration in excess of \$50 million if the aggregate consideration is greater than \$50 million.

If we sell or transfer less than a 100% interest in the property, then the aforementioned bonus payments shall be ratably reduced by multiplying the bonus payment by the percentage of interest subject to the transfer transaction. The sale or transfer of the remainder of the interest in the property held by us will continue to be subject to the aforementioned bonus payment provisions.

On December 8, 2012, we entered into a second amendment agreement with the Optionor to amend the amendment agreement to extend the deadline to make the cash payment of \$2,450,000 following TSX Venture Exchange approval for a period of 30 days from the date of final approval with a payment of \$100,000 to Potash Green, LLC, which payment will be deducted from the aggregate payment owed.

The amendment agreement and the second amendment agreement to the Ringbolt Option Agreement were approved by the TSX Venture Exchange on February 27, 2013, and all payments except the \$1,250,000 due on October 31, 2014, have been paid.

Cooperative Agreement and Joint Exploration Agreement with The Hopi Tribe

Portions of our Holbrook Basin potash project in Arizona are located adjacent to land privately owned by the Hopi Tribe. On March 8, 2011 we finalized a cooperative agreement with the Hopi Tribe which establishes a cooperative arrangement between us and the Hopi Tribe and gives us access across the privately owned Hopi lands to conduct exploration activities while allowing the Tribe to share in our study results. We are in continuing discussions with the Hopi Tribe on the project.

On November 8, 2012, but having an effective date of November 1, 2012, we and The Hopi Tribe, a federally recognized Indian Tribe, entered into a Joint Exploration Agreement (the "JEA") pursuant to which the parties agree to explore the Hopi land sections (the "Hopi Property") which are checker-boarded with our southern landholdings in accordance with an exploration program, which shall consist of a two-phase drilling campaign as set out in Exhibit 2 to the JEA. The first phase of the exploration program will include 8 drill sites and will cover a 25,000 acre swath of the contiguous land sections in the DoBell ranch area of the Holbrook Basin. The second phase of drilling, which will be designed by ERCOSPLAN guided from the results from phase one, will include up to 10 additional drill sites. We will be responsible for all costs, charges and expenses incurred in connection with the exploration program.

In addition, under the JEA, we shall indemnify, defend, release, and hold harmless The Hopi Tribe and its elected officials, advisors and contractors, employees, agents, lessees, insurers, successors and assigns (the "Indemnities") for, against and from any claim, damage, lien, loss, cost, charge, expense (including attorneys' fees and expenses) or liability resulting from, or caused by, or incurred in connection with, or alleged to have resulted from, or been caused by, or been incurred in connection with, in whole or in part, directly or indirectly, the exploration program. Our payment and indemnity obligations shall survive the termination of the JEA.

Pursuant to the JEA, the Hopi Tribe grants us and our contractors, which includes any employee or contractor involved in the exploration program (as defined in the JEA), a limited license on the terms and conditions, and during the term of the JEA to (a) enter and cross existing ranch roads on Hopi Property for ingress and egress purposes related to the exploration program, (b) blade new roads to drill sites on the Hopi Property designated by ERCOSPLAN, (c) drill exploratory holes on the Hopi Property at drill sites designated by ERCOSPLAN, (d) lay cables across the Hopi Property for purposes of seismic studies that are part of the exploration program, (e) drive a vibrator truck along seismic lines, and (f) blade existing ranch roads on the Hopi Property. We and our contractors shall not use the Hopi Property for any other purpose without the prior written approval of The Hopi Tribe; provided, that with respect to use of the Hopi Property identified by ERCOSPLAN in writing as necessary or desirable for purposes of the exploration program, The Hopi Tribe's approval shall not be unreasonably withheld, conditioned or delayed.

Except as otherwise expressly set forth in the JEA, us and The Hopi Tribe shall each separately have the right to possess and use all exploration program results for any purpose. In addition, The Hopi Tribe and us, and the parties respective successors and assigns, may use and freely disclose exploration program results received under this JEA without prior approval of the other for the parties or such successors or assigns' internal use, and for review and use by geologists and other outside advisors engaged by it (including ERCOSPLAN) or its successors or assigns, lenders and prospective lenders, venture partners and prospective venture partners, and others who are subject to confidentiality agreements consistent with the disclosing party's obligations under the JEA; provided, no exploration program results shall be shared with venture partners or prospective venture partners by The Hopi Tribe other than us or persons approved in writing by us in our discretion prior to the earlier of (1) expiration or termination of one or more of our mineral exploration permits from the Arizona State Land Department pertaining to our property, or (2) October 15, 2014 (such earlier date, the "Automatic Termination Date").

Furthermore, the JEA contains an exclusivity provision whereby from the effective date and ending on the date the JEA terminates unless extended in accordance with the terms of the JEA until October 15, 2015, The Hopi Tribe will negotiate exclusively with us with respect to the joint exploration of the Hopi Property and our property, which are contiguous as set out in a letter of intent (the "Letter of Intent") entered into between the parties on September 26, 2012, and it will not directly or indirectly, take any of the following actions with any party other than us:

- (i) solicit or encourage inquiries or proposals with respect to, furnish any information relating to, participate in any negotiations or discussions concerning, or cooperate in any manner relating to the subject matter of the Letter of Intent (a "Transaction"); or
- (ii) enter into any agreement or understanding with any person or entity providing for a Transaction.

Unless the JEA is earlier terminated in accordance with the JEA or superseded by another agreement between the parties, the JEA shall terminate automatically at 5:00 PM Arizona time on the Automatic Termination Date.

Fitzgerald Ranch Property

On May 7, 2012, we entered into a purchase agreement with co-trustees of the Fitzgerald Living Trust (Fitzgerald Living Trust) to acquire real estate covering a total of 41,000 contiguous acres of royalty-free private land (the Fitzgerald Ranch) located near Holbrook and adjacent to our Twin Buttes Ranch holdings in the Holbrook Basin in exchange for a total purchase price of \$15,000,000 on the following material terms: (i) \$250,000 to be irrevocably released to Fitzgerald Living Trust upon execution of the agreement; (ii) an additional \$250,000 to be placed into escrow and irrevocably released to Fitzgerald Living Trust on July 1, 2012; (iii) during the term of the agreement, we have the right to perform exploration activities on the property; (iv) a payment of \$14,500,000 at closing to take place on December 18, 2012; and (v) the final purchase is subject to TSX Venture Exchange approval.

A provision of the agreement grants us the right to perform exploration activities on the property. We have added 8 additional drill holes to our 2012 drill program which will be drilled on the Fitzgerald Ranch. We have drilled 5 holes on the Fitzgerald Ranch as part of the drill program.

On November 8, 2012, we entered into an amendment agreement to the original property purchase agreement. In accordance with the amendment agreement, in addition to our payment of an aggregate of \$500,000 made by July 1, 2012, payments of \$500,000 and \$4,000,000 were to be made to Fitzgerald Living Trust upon execution of the amendment agreement and on December 18, 2012, respectively, which December 18, 2012 payment has not yet been made. Additionally, a payment of \$5,000,000 will be irrevocably paid to Fitzgerald Living Trust on June 30, 2013 and the balance of \$5,000,000 will be paid at the time of closing of the sale which will take place on December 18, 2013.

We also agreed to reimburse Fitzgerald Living Trust for any increase in taxes to it which are attributable to closing this sale in 2013 rather than 2012 and to make this reimbursement within 120 days from the date Fitzgerald Living Trust provides documentation to us of the increased tax amount.

On May 29, 2013, we entered into an agreement to amend and restate the agreement to the original property purchase agreement (the Amended and Restated Agreement) with Fitzgerald Living Trust for the purchase of the Fitzgerald Ranch, which also supersedes the amendment agreement dated November 8, 2012, as follows:

- (a) the purchase price has been increased to \$17,000,000, of which \$1,000,000 was paid and the balance is to be paid as follows:
 - (i) a payment of \$500,000 on the earlier of October 31, 2013, or within 30 days of closing our next financing;
 - (ii) a payment of \$500,000 to be paid on December 31, 2013;
 - (iii) a payment of \$1,000,000 to be paid on December 31, 2014; and
 - (iv) the balance of \$14,000,000 to be paid on the closing of the sale which is on or before June 15, 2015;

The Amended and Restated Agreement is subject to TSX Venture Exchange approval.

Joint Exploration Agreement with HNZ Potash, LLC

On July 27, 2012, we entered into a Joint Exploration Agreement (the Agreement) with HNZ Potash, LLC (HNZ) to jointly explore and potentially develop twenty-one permitted parcels in which we hold ASLD exploration permits and which are located on the southernmost area of our landholdings (the Permit Property). The Permit Property is within HNZ s private landholdings and has not been previously explored by us. Under the terms of the Agreement, HNZ has agreed to pay us 50% of certain costs previously incurred by us with respect to the Permit Property, which payment was received by us during the fiscal year ended February 28, 2013 and we have assigned a 50% interest in the Permit Property to HNZ. Each of the parties will be liable for 50% of the future costs relating to the permits.

The purposes of the Agreement are to: (i) conduct exploration and to evaluate the potential for development and mining of the Permit Property; (ii) to acquire interests within the lands owned by the Hopi Tribe commonly referred to as the Dobell Ranch lands as more particularly described in the Agreement; (iii) if justified by the exploration activities, the parties upon mutual agreement will form an entity to seek a mining lease to jointly engage in development and mining of the Permit Property; (iv) to complete and satisfy all environmental compliance obligations and continuing obligations affecting the Permit Property; and (v) to perform any other activity necessary, appropriate, or incidental to any of the foregoing. During the term of the Agreement, the parties will equally share the costs for maintaining the Permit Property in good standing with the ASLD. The parties may, either alone or jointly, conduct exploration of any or all of the Permit Property pursuant to one or more plans of exploration.

The term of the Agreement shall begin on the effective date of the Agreement and extend to the expiration of the fifth year term of the last permit covered by the Agreement, or any permit obtained as a replacement therefor (the Term); provided, however, that, if during the Term the participants (or any entity formed by the participants) jointly apply for a mineral lease or mineral leases on any portion of the Permit Property, the Term shall be automatically extended to the date a final determination is issued by the ASLD regarding the last mineral lease application.

Other provisions in the Agreement include the following:

- The parties will provide to each other existing exploration data from their Holbrook Basin potash exploration activities. The data provided by each Party may be used by the other party to update their existing or future resource reports or any other future reports.
- The parties will provide each other vehicular access across existing paved and unpaved roads on property controlled by the other party.
- The parties have established an area of mutual interest and have agreed to jointly pursue opportunities within this area.

Additional Exploration Permits

On May 30, 2013, we announced that we had received nine new exploration permits from the ASLD, adding 4,703.66 acres of Arizona State trust land to our land package. These additional permits are on Arizona State trust land sections that had been closed to development related to the proposed expansion of the Petrified Forest National Park. Seven of the sections lie within our private landholdings, while the other two border the Hopi Property development area and abut the south border of the Petrified Forest National Park.

Employees

As at August 31, 2013, we have one employee, however, we have 10 individuals working on a consulting basis. Our operations are managed by our officers with input from our directors. We engage geological and engineering consultants from time to time as required to assist in evaluating our property interests and recommending and conducting work programs.

Results of Operations

The following table sets forth our results of operations from inception of exploration stage on May 22, 2007 to August 31, 2013 as well as for the three and six month periods ended August 31, 2013 and 2012:

| | Three month periods ended August 31, | | Six month periods ended August 31, | | For the period May 22, 2007 (inception of Exploration Stage) to August 31, 2013 |
|--|---|-------------|---------------------------------------|-------------|--|
| | 2013 | 2012 | 2013 | 2012 | |
| Operating Expenses: | | | | | |
| Administration \$ | 64,836 | \$ 21,591 | \$ 85,460 | \$ 26,092 | \$ 988,319 |
| Advertising | 21,050 | 134,987 | 72,543 | 345,944 | 1,814,028 |
| Business development | 104,677 | 113,119 | 240,485 | 306,348 | 1,257,022 |
| Consulting fees | 200,282 | 135,590 | 330,975 | 313,858 | 8,552,689 |
| Depreciation | 41 | 55 | 82 | 110 | 2,299 |
| Foreign exchange (gain) loss | 11,139 | (161,934) | 19,305 | 143,947 | 152,808 |
| Investor relations | 79,802 | 67,399 | 140,690 | 188,671 | 1,398,487 |
| Management fees | 247,901 | 166,043 | 412,115 | 337,044 | 3,693,415 |
| Mineral property impairment | - | - | - | - | 652,784 |
| Mineral property option payments and exploration costs | 431,073 | 2,588,018 | 1,076,358 | 3,794,043 | 21,745,969 |
| Office and miscellaneous | 15,363 | 17,720 | 35,370 | 34,971 | 313,473 |
| Professional fees | 239,076 | 262,774 | 275,857 | 336,499 | 1,550,578 |
| Property investigation costs | - | - | - | - | 24,483 |
| Transfer agent and filing fees | 31,457 | 16,855 | 59,100 | 19,298 | 404,053 |
| Net loss before other items | (1,446,697) | (3,332,217) | (2,748,340) | (5,846,825) | (42,550,407) |
| Other Items | (1,049,013) | - | (2,076,400) | - | (2,169,966) |

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| | | | | | |
|--|-----------------------|-----------------------|-----------------------|---------------------|------------------------|
| Accretion expense | | | | | |
| Change in fair value of derivative liability | 816,868 | 1,749,229 | 1,511,513 | 4,995,782 | 6,292,352 |
| Interest expense on convertible debentures | (218,533) | - | (432,947) | - | (452,570) |
| Interest income | - | 10,334 | - | 24,528 | 90,216 |
| Loss on debt settlement | - | - | - | - | (37,488) |
| Other Income | - | 112,668 | - | 112,668 | 153,125 |
| | (450,678) | 1,872,231 | (997,834) | 5,132,978 | 3,875,669 |
| Net loss | \$ (1,897,375) | \$ (1,459,986) | \$ (3,746,174) | \$ (713,847) | \$ (38,674,738) |
| Loss per share basic and diluted | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ (0.00) | |
| Weighted average number of shares outstanding during the year basic and diluted | 183,610,235 | 172,118,709 | 183,597,578 | 170,721,208 | |

Results of Operations for the three month periods ended August 31, 2013 and 2012

Revenues

During the three month periods ended August 31, 2013 and 2012, we did not generate any revenues.

Operating Expenses

Operating expenses incurred during the three month period ended August 31, 2013 were \$1,446,697 as compared to \$3,332,217 during the three month period ended August 31, 2012. Significant changes and expenditures are outlined as follows:

- Administration expenses were \$64,836 and \$21,591 for the three month periods ended August 31, 2013 and 2012, respectively. The increase was mainly due to non-cash stock based compensation paid to administrative service providers during the three month period ended August 31, 2013.
- Advertising expenses were \$21,050 and \$134,987 for the three month periods ended August 31, 2013 and 2012, respectively. The decrease was due to less promotion purposes to increase market awareness of the Company during the three month period ended August 31, 2013.
- Business Development expenses were \$104,677 and \$113,119 for the three month periods ended August 31, 2013 and 2012, respectively. The decrease was due to less travel expenses and attending fewer conventions during the three month period ended August 31, 2013.
- Consulting fees were \$200,282 and \$135,590 for the three month periods ended August 31, 2013 and 2012, respectively. The increase was mainly due to non-cash stock based compensation paid to consultants during the three month period ended August 31, 2013.
- Depreciation expense was \$41 and \$55 for the three month periods ended August 31, 2013 and 2012, respectively.
- Foreign exchange loss (gain) was \$11,139 and (\$161,934) for the three month periods ended August 31, 2013 and 2012, respectively. The increase in the foreign exchange loss for the three month period ended August 31, 2013 compared to a gain for the three month period ended August 31, 2012 was due to fluctuations in the USD and CAD exchange rate and the translation of non-monetary assets.
- Investor relations expenses were \$79,802 and \$67,399 for the three month periods ended August 31, 2013 and 2012, respectively. The increase was due to an increase in investor relations activity during the three month period ended August 31, 2013.
- Management fees were \$247,901 and \$166,043 for the three month periods ended August 31, 2013 and 2012, respectively. The increase in management fees was mainly due to non-cash stock based compensation paid during the three month period ended August 31, 2013.
- Mineral property option payments and exploration costs were \$431,073 and \$2,558,018 for the three month periods ended August 31, 2013 and 2012, respectively. The decrease was mainly due to the Company incurring less option payments and exploration costs during the three month period ended August 31, 2013.
- Office and miscellaneous expenses were \$15,363 and \$17,720 for the three month periods ended August 31, 2013 and 2012, respectively. The decrease was due to the decrease in website expenses during the three month period ended August 31, 2013.
- Professional fees were \$239,076 and \$262,774 for the three month periods ended August 31, 2013 and 2012, respectively. The decrease was due to a decrease in operating activities and regulatory filings with respect to the Company during the three month period ended August 31, 2013.
- Transfer agent and filing fees were \$31,457 and \$16,855 for the three month periods ended August 31, 2013 and 2012, respectively. The increase was due to an increase in the services being provided by the transfer agent during the three month period ended August 31, 2013.

Other Items

During the three month period ended August 31, 2013, our other items accounted for \$450,678 in expenses as compared to \$1,872,231 in income for the three month period ended August 31, 2012. The significant changes in other items income (expenses) are outlined as follows:

- Accretion expense was (\$1,049,013) and \$Nil for the three month periods ended August 31, 2013 and 2012, respectively. The accretion was due to the outstanding convertible debentures that were used during February to April of 2013.
- Change in derivative liability was \$816,868 and \$1,749,229 for the three month periods ended August 31, 2013 and 2012, respectively. The change in derivative liability was due to a decrease in the number and the outstanding term of the warrants denominated in Canadian dollars which resulted in a decrease in the derivative liability. These factors were more pronounced in the three month period ended August 31, 2012 as compared to the three month period ended August 31, 2013.
- Interest expense on convertible debentures was (\$218,807) and \$Nil for the three month periods ended August 31, 2013 and 2012, respectively. The increase was due to the issuance of convertible debentures during the three month period ended August 31, 2013.
- Interest income was \$Nil and \$10,334 for the three month periods ended August 31, 2013 and 2012, respectively. The decrease was due to the Company having less funds in short term interest bearing securities during February to April of 2013.

Net Loss

The net loss was \$1,897,375 and \$1,459,986 for the three month periods ended August 31, 2013 and 2012, respectively. The increase in net loss of \$437,389 resulted primarily from there being a decrease in the derivative liability of \$1,749,229 in the three month period ended August 31, 2012 compared to \$816,868 in the three month period ended August 31, 2013. There were also an accretion expense of \$1,049,013 in the three month period ended August 31, 2013, interest expense on convertible debentures of \$218,533 in the three month period ended August 31, 2013, as well as a result of a reduction in advertising expenses, business development expenses, mineral property option payments and exploration costs, and professional fees, which was offset by an increase in administration expenses, consulting fees, investor relations expenses, management fees and transfer agent and filing fees.

Results of Operations for the six month periods ended August 31, 2013 and 2012

Revenues

During the six month periods ended August 31, 2013 and 2012, we did not generate any revenues.

Operating Expenses

Operating expenses incurred during the six month period ended August 31, 2013 were \$2,748,066 as compared to \$5,846,825 during the six month period ended August 31, 2012. Significant changes and expenditures are outlined as follows:

- Administration expenses were \$85,460 and \$26,092 for the six month periods ended August 31, 2013 and 2012, respectively. The increase was mainly due to non-cash stock based compensation paid to administrative service providers during the six month period ended August 31, 2013.
- Advertising expenses were \$72,543 and \$345,944 for the six month periods ended August 31, 2013 and 2012, respectively. The decrease was due to less promotion purposes to increase market awareness of the Company during the six month period ended August 31, 2013.

- Business Development expenses were \$240,485 and \$306,348 for the six month periods ended August 31, 2013 and 2012, respectively. The decrease was due to less travel expenses and attending fewer conventions during the six month period ended August 31, 2013.

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- Consulting fees were \$330,975 and \$313,858 for the six month periods ended August 31, 2013 and 2012, respectively. Although consulting fee expenses decreased during the six month period ended August 31, 2013, the non-cash stock based compensation paid to consultants resulted in an increase in consulting fee expenses during the six month period ended August 31, 2013.
- Depreciation expense was \$82 and \$110 for the six month periods ended August 31, 2013 and 2012, respectively.
- Foreign exchange loss (gain) was \$19,305 and \$143,947 for the six month periods ended August 31, 2013 and 2012, respectively. The decrease in the foreign exchange loss for the six month period ended August 31, 2013 compared to the six month period ended August 31, 2012 was due to fluctuations in the USD and CAD exchange rate and the translation of non-monetary assets.
- Investor relations expenses were \$140,690 and \$188,671 for the six month periods ended August 31, 2013 and 2012, respectively. The actual cash paid for investor relations expenses increased during the six month period ended August 31, 2013, however, there was no non-cash stock based compensation included compared to the prior year, which resulted in a net decrease of this expense item during the six month period ended August 31, 2013.
- Management fees were \$412,115 and \$337,044 for the six month periods ended August 31, 2013 and 2012, respectively. The increase in management fees was mainly due to non-cash stock based compensation paid during the six month period ended August 31, 2013.
- Mineral property option payments and exploration costs were \$1,076,358 and \$3,794,043 for the six month periods ended August 31, 2013 and 2012, respectively. The decrease was due to the Company incurring less option payments and exploration costs during the six month period ended August 31, 2013.
- Office and miscellaneous expenses were consistent with \$35,096 and \$34,971 for the six month periods ended August 31, 2013 and 2012, respectively.
- Professional fees were \$275,857 and \$336,499 for the six month periods ended August 31, 2013 and 2012, respectively. The decrease was due to a decrease in operating activities and regulatory filings with respect to the Company during the six month period ended August 31, 2013.
- Transfer agent and filing fees were \$59,100 and \$19,298 for the six month periods ended August 31, 2013 and 2012, respectively. The increase was due to an increase in the services being provided by the transfer agent during the six month period ended August 31, 2013.

Other Items

During the six month period ended August 31, 2013, our other items accounted for \$997,834 in expenses as compared to \$5,132,978 in income for the six month period ended August 31, 2012. The significant changes in other items income (expenses) are outlined as follows:

- Accretion expense was (\$2,076,400) and \$Nil for the six month periods ended August 31, 2013 and 2012, respectively. The accretion was due to the outstanding convertible debentures that were issued during February to April 2013.
- Change in derivative liability was \$1,511,513 and \$4,995,782 for the six month periods ended August 31, 2013 and 2012, respectively. The change in derivative liability was due to a decrease in the number and the outstanding term of the warrants denominated in Canadian dollars which resulted in a decrease in the derivative liability. These factors were more pronounced in the six month period ended August 31, 2012 as compared to the six month period ended August 31, 2013.
- Interest expense on convertible debentures was (\$432,947) and \$Nil for the six month periods ended August 31, 2013 and 2012, respectively. The increase was due to the issuance of convertible debentures during February to April of 2013.

- Interest income was \$Nil and \$24,528 for the six month periods ended August 31, 2013 and 2012, respectively. The decrease was due to the Company having less funds in short term interest bearing securities during the six month period ended August 31, 2013.

Net Loss

The net loss was \$3,746,174 and \$713,847 for the six month periods ended August 31, 2013 and 2012, respectively. The increase in net loss of \$3,032,327 resulted primarily from there being a decrease in the derivative liability of \$4,995,782 in the six month period ended August 31, 2012 compared to \$1,511,513 in the six month period ended August 31, 2013. There were also an accretion expense of \$2,076,400 in the six month period ended August 31, 2013, interest expense on convertible debentures of \$432,947 in the six month period ended August 31, 2013, as well as a result of a reduction in advertising expenses, business development expenses, foreign exchange loss, investor relations expenses, mineral property option payments and exploration costs, and professional fees, which was offset by an increase in administration expenses, consulting fees, management fees and transfer agent and filing fees.

Liquidity and Capital Resources

Our financial statements have been prepared assuming that we will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should we be unable to continue in operation.

As at August 31, 2013, our current assets were \$251,253 and our current liabilities was \$5,540,411 including a derivative liability of \$105,460, resulting in a working capital deficit of \$5,289,158. Our current assets as at August 31, 2013 consisted of cash and cash equivalents of \$38,205, receivables of \$20,524, prepaid expenses of \$174,548 and deferred issuance costs of \$17,976. Our current liabilities as at August 31, 2013 consisted of trade payables and accrued liabilities of \$1,182,032, convertible debentures liability of \$4,252,919 and derivative liability of \$105,460.

During the six month period ended August 31, 2013, we received cash of \$132,505 (2012: Nil) for debentures issued net of issue costs, and \$8,157 (2012: \$176,976) for proceeds on issuance of common shares upon the exercise of warrants. At August 31, 2013, we had an aggregate of 50,968,146 (February 28, 2013: 48,584,812) share purchase warrants exercisable, between \$0.20 and \$0.25 (CAD\$0.20 and CAD\$0.25) and for US\$0.19 per share, which have the potential upon exercise to convert to approximately US\$5,520,371 plus CAD\$4,438,814 in cash over the next year. Further as at August 31, 2013, a total of 18,333,625 (February 28, 2013: 18,279,892) stock options exercisable between \$0.10 and \$0.59 (CAD\$0.10 and CAD\$0.59) per share which have the potential upon exercise to generate a total of approximately \$5,536,609 (CAD\$5,536,609) in cash over the next five years. There is no assurance that these securities will be exercised.

Deficit accumulated since inception of exploration stage increased from (\$34,928,564) as at February 28, 2013 to (\$38,674,738) as at August 31, 2013.

Our plan of operations over the next twelve months is to focus on the following:

- Payments to Fitzgerald Living Trust under the Amended and Restated Agreement of \$500,000 on the earlier of either October 31, 2013 or within 30 days of closing our next financing, and \$500,000 on December 31, 2013.
- Payments to Twin Buttes Ranch, LLC under the amended option agreement for the acquisition of the Twin Buttes Ranch property which requires a payment of \$250,000 on the earlier of December 1, 2013 or within 30 days of closing a financing and a payment of \$250,000 on or before August 28, 2014.
- Unless earlier converted, repay the outstanding convertible debentures in the amount of \$5,785,540.
- Completion of Phase 1 of our planned exploration program which requires approximately \$7,500,000.

Therefore, based on the above, we anticipate that we will require a total of approximately \$14,785,540 for our plan of operations over the next twelve months. At August 31, 2013, we had cash of \$38,205 and a working capital deficit of \$5,289,158. During the next twelve months, we anticipate that we will not generate any revenue. Accordingly, we will be required to obtain additional equity financing in order to pursue our plan of operations for and beyond the next twelve months. We cannot provide investors with any assurance that we will be able to raise sufficient funding from the sale of our common stock to fund our exploration programs, property acquisitions and repayment of debt going forward. In the absence of such financing, we will not be able to continue our planned property acquisitions and possibly our anticipated exploration programs and our business plan may fail. Even if we are successful in obtaining financing to fund our exploration program, there is no assurance that we will obtain the funding necessary to complete our planned property acquisitions.

Statement of Cashflows

During the six month period ended August 31, 2013, our net cash decreased by \$1,605,566, which included net cash used in operating activities of (\$1,746,228), net cash used in investing activities of \$Nil and net cash provided by financing activities of \$140,662.

During the fiscal year ended February 28, 2013, our net cash decreased by \$6,955,239, which included net cash used in operating activities of (\$12,788,940), net cash used in investing activities of (\$1,050,000) and net cash provided by financing activities of \$6,883,701.

Cash Flow used in Operating Activities

Operating activities in the six months ended August 31, 2013 used cash of (\$1,746,228) compared to (\$5,429,608) in the six months ended August 31, 2012. Significant changes in cash used in operating activities are outlined as follows:

- Mineral property option payments and exploration costs were \$1,076,358 for the six month period ended August 31, 2013 compared to \$3,794,043 for the six month period ended August 31, 2012.
- Other operating expenses, excluding non-cash items such as stock-based compensation, depreciation and amortization, totaled \$1,302,995 for the six month period ended August 31, 2013 compared to \$2,143,890 for the six month period ended August 31, 2012.
- Change in working capital items resulted in a net increase in cash of \$612,792 in the six months ended August 31, 2013 compared to a decrease in cash of \$128,838 in the six months ended August 31, 2012.
- Interest income was \$Nil and \$24,528 for the six month periods ended August 31, 2013 and 2012, respectively.

Cash Flow used in Investing Activities

During the six month period ended August 31, 2013, investing activities used cash of \$Nil as compared to \$550,000 during the six month period ended August 31, 2012. Investing activities during the six month period ended August 31, 2012 consisted of (i) long term deposits of \$250,000 and (ii) mineral property acquisition costs of \$300,000.

Cash Flow provided by Financing Activities

During the six month period ended August 31, 2013, cash provided by financing activities consisted of (i) proceeds from issuance of debentures net of issue costs of \$132,505 and (ii) proceeds on issuance of common shares upon the exercise of warrants of \$8,157. During the six month period ended August 31, 2012, financing activities provided net cash of \$176,976 from the proceeds on issuance of common shares upon the exercise of warrants.

Off-balance sheet arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Subsequent events

On September 12, 2013, our shareholders approved a resolution to alter our articles to include advance notice provisions, a copy of which altered articles are attached hereto as Exhibit 3.3.

In addition, on September 12, 2013, our board of directors appointed Mr. Bill Allred as a director of our Company.

Outstanding share data

At August 31, 2013, we had 183,619,388 issued and outstanding common shares, 18,333,625 outstanding stock options at a weighted average exercise price of \$0.29 (CAD\$0.29) per share, and 50,968,146 outstanding warrants at a weighted average exercise price of \$0.20 (CAD\$0.20) per share.

Critical Accounting Policies

Our financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. In general, management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements.

Mineral Property Expenditures

We are primarily engaged in the acquisition, exploration and development of mineral properties.

Mineral property acquisition costs are capitalized in accordance with FASB ASC 930-805, Extractive Activities-Mining, when management has determined that probable future benefits consisting of a contribution to future cash inflows have been identified and adequate financial resources are available or are expected to be available as required to meet the terms of property acquisition and budgeted exploration and development expenditures. Mineral property acquisition costs are expensed as incurred if the criteria for capitalization are not met. In the event that mineral property acquisition costs are paid with Company shares, those shares are recorded at the estimated fair value at the time the shares are due in accordance with the terms of the property agreements.

Mineral property exploration costs are expensed as incurred.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves and pre-feasibility, the costs incurred to develop such property are capitalized.

Estimated future removal and site restoration costs, when determinable are provided over the life of proven reserves on a units-of-production basis. Costs, which include production equipment removal and environmental remediation, are estimated each period by management based on current regulations, actual expenses incurred, and technology and industry standards. Any charge is included in exploration expense or the provision for depletion and depreciation during the period and the actual restoration expenditures are charged to the accumulated provision amounts as incurred.

As of the date of these financial statements, we have incurred property acquisition costs that have been capitalized and property option payments and exploration costs which have been expensed.

To date we have not established any proven or probable reserves on our mineral properties.

Stock-based Compensation

We account for Stock-Based Compensation under ASC 718 Compensation - Stock Compensation, which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. ASC 718-10 requires measurement of the cost of employee services received in exchange for an award of equity instruments based

on the grant-date fair value of the award (with limited exceptions). Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized.

We account for stock-based compensation awards to non-employees in accordance with ASC 505-50, Equity-Based Payments to Non-Employees. Under ASC 505-50, we determine the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Any stock options or warrants issued to non-employees are recorded in expense and additional paid-in capital in shareholders' equity/(deficit) over the applicable service periods using variable accounting through the vesting dates based on the fair value of the options or warrants at the end of each period.

We issue stock to consultants for various services. The costs for these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. We recognized consulting expense and a corresponding increase to additional paid-in-capital related to stock issued for services.

Recent Accounting Pronouncements

We have reviewed recently issued accounting pronouncements and we plan to adopt those that are applicable to us. We do not expect the adoption of these pronouncements to have a material impact on our financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Our primary exposure to credit risk is on our cash and cash equivalents. As most of our cash and cash equivalents are held by the same bank there is a concentration of credit risk. This risk is managed by using a major Canadian banks that are high credit quality financial institutions as determined by rating agencies. Our secondary exposure to risk is on our other receivables. This risk is minimal as receivables consist primarily of refundable government goods and services taxes.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. Our objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet our liquidity requirements at any point in time. We achieve this by maintaining sufficient cash and cash equivalents and raising capital through debt and/or equity financing.

Historically, our sole source of funding has been the issuance of equity securities for cash, primarily through private placements. Our access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Foreign exchange risk

Foreign exchange risk is the risk that we will be subject to foreign currency fluctuations in satisfying obligations related to our foreign activities. We operate primarily in Canada and the United States and are consequently exposed to foreign exchange risk arising from transactions denominated in foreign currency. Fluctuations in foreign currency exchange rates may affect our results of operations. We manage foreign exchange risk by closely monitoring relevant exchange rates and when possible, executes currency exchange transactions at times when exchange rates are most advantageous for us. We do not use hedging to manage its foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk on our cash equivalents as these instruments have original maturities of three months or less and are therefore exposed to interest rate fluctuations on renewal.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, Joshua Bleak (being our principal executive officer), and our Chief Financial Officer, Laara Shaffer (being our principal financial and accounting officer), to allow for timely decisions regarding required disclosure. Our Chief Executive Officer and our Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for our Company.

Our management has evaluated the effectiveness of our disclosure controls and procedures as of August 31, 2013 (under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer), pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended. As part of such evaluation, management considered the matters discussed below relating to internal control over financial reporting. Based on this evaluation, our Company's Chief Executive Officer and Chief Financial Officer have concluded that our Company's disclosure controls and procedures were not effective as of August 31, 2013.

Changes in Internal Control over Financial Reporting

The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

A material weakness is defined in Public Company Accounting Oversight Board Auditing Standard No. 5 as a significant deficiency, or a combination of significant deficiencies, in internal control over financial reporting that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

There have not been any changes in our internal control over financial reporting that occurred during our fiscal quarter ended August 31, 2013 that have materially affected, or are likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Management is not aware of any legal proceedings contemplated by any governmental authority or any other party involving us or our properties. As of the date of this quarterly report, no director, officer or affiliate is a party adverse to us in any legal proceeding, or has an adverse interest to us in any legal proceedings.

For a discussion of the legal proceeding involving us and North American Potash Developments Inc. (formerly Ringbolt Ventures Ltd.), Potash Green, LLC, Wendy Walker Tibbetts and Joseph J. Hansen (collectively, the Optionor), which was settled pursuant to an amendment agreement and such civil action was dismissed by the Third Judicial District Court, Salt Lake County, State of Utah with prejudice, please see our quarterly report on Form 10-Q filed with the SEC on July 15, 2013.

Item 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On September 12, 2013, we held our annual general and special meeting of shareholders whereby one of the items that was approved by our shareholders was an alteration to the Company's current Articles to include advance notice provisions to establish certain requirements for the valid nomination for election as a director of the Company of any person who is proposed to be nominated other than by the our Board of Directors. A discussion about the purpose of the advance notice provision and the effect of the advance notice provision is included in our Definitive Schedule 14A under proposal number six, which was filed with the SEC on August 14, 2013.

A copy of our Articles as altered is attached hereto as Exhibit 3.3.

Item 6. Exhibits

Exhibit Document
No.

| | |
|------------|---|
| 3.1.1 | Certificate of Registration (2) |
| 3.1.2 | Certificate of Modification, dated January 21, 1994 (2) |
| 3.1.3 | Certificate of Modification, dated November 11, 1996 (2) |
| 3.1.4 | Certificate of Modification, dated June 16, 2004 (2) |
| 3.1.5 | Certificate of Modification, dated October 17, 2007 (2) |
| 3.1.6 | Certificate of Modification, dated November 10, 2009 (2) |
| 3.1.7 | Certificate of Continuation, dated April 26, 2011 (3) |
| 3.1.8 | Notice of Articles, dated May 31, 2012 (3) |
| 3.2 | Articles (1) |
| <u>3.3</u> | <u>Articles as altered on September 12, 2013 *</u> |
| 4.1 | Share Option Plan (1) |
| 4.2 | Share Rights Plan (1) |
| 10.1 | Mineral Property Option Agreement between Southwest Exploration, Inc. and Passport Potash Inc., dated September 30, 2008 (2) |
| 10.2 | Amendment No. 1 to Mineral Property Option Agreement between Southwest Exploration, Inc. and Passport Potash Inc., dated September 18, 2009 (1) |
| 10.3 | Option Agreement between Twin Buttes Ranch, LLC and Passport Potash Inc., dated August 28, 2009 (3) |
| 10.4 | Amendment Agreement to Option Agreement between Twin Buttes Ranch, LLC and Passport Potash Inc., dated September 7, 2010 (1) |
| 10.5 | Amendment No. 2 to Mineral Property Option Agreement between Southwest Exploration, Inc. and Passport Potash Inc., dated October 1, 2010 (1) |
| 10.6 | Mineral Property Option Agreement between Mesa Uranium Corp. and Passport Potash Inc., dated August 31, 2010 (3) |
| 10.7 | |

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- Option of Arizona Exploration Leases Agreement between Sweetwater River Resources, LLC, American Potash, LLC and Passport Potash Inc., dated November 12, 2010 (3)
- 10.8 Option Agreement between Ringbolt Ventures Ltd., Potash Green, LLC, Wendy Walker Tibbetts, Joseph J. Hansen and Passport Potash Inc., dated March 28, 2011 (3)
- 10.9 Cooperative Agreement between Hopi Tribe and Passport Potash Inc., dated March 8, 2011 (3)
- 10.10 Agreement between Southwest Exploration, Inc. and Passport Potash Inc., dated February 13, 2012 (3)

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- 10.11 Property Purchase Agreement between Fitzgerald Living Trust and Passport Potash Inc., dated May 7, 2012 (2)
- 10.12 Joint Exploration Agreement between HNZ Potash, LLC and Passport Potash Inc., dated July 27, 2012 (2)
- 10.13 Amendment Agreement between Passport Potash Inc., North American Potash Developments Inc., Potash Green, LLC, Wendy Walker Tibbetts and Joseph J. Hansen, dated October 30, 2012 (4)
- 10.14 Joint Exploration Agreement between Passport Potash Inc. and The Hopi Tribe, dated effective November 1, 2012 (5)
- 10.15 Amendment to Agreement to Purchase Real Estate between Passport Potash Inc. and the Fitzgerald Living Trust, dated November 8, 2012 (5)
- 10.16 Second Amendment Agreement between Passport Potash Inc., North American Potash Developments Inc., Potash Green, LLC, Wendy Walker Tibbetts and Joseph J. Hansen, dated December 8, 2012 (6)
- 10.17 Agreement to Amend and Restate Agreement to Purchase Real Estate between Fitzgerald Living Trust and Passport Potash Inc., dated May 29, 2013 (8)
- 10.18 Form of Placement Agent Agreement (12)
- 10.19 Amendment to Option Agreement between Passport Potash Inc. and Twin Buttes Ranch, LLC, dated December 4, 2009 (12)
- 10.20 Amendment to Option Agreement between Passport Potash Inc. and Twin Buttes Ranch, LLC, dated August 20, 2013 (11)
- 10.21 Mining Lease between Passport Potash Inc. and Twin Buttes Ranch, LLC, dated December 4, 2009 (included in Exhibit 10.19) (12)
- 10.22 Amendment to Mining Lease between Passport Potash Inc. and Twin Buttes Ranch, LLC, dated August 20, 2013 (11)
- 20.1 Advance Notice Policy, dated July 22, 2013 (10)
- 21.1 Subsidiaries of the Issuer (8)
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act. *
- 31.2 Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act. *
- 32.1 Certification of Chief Executive Officer and Chief Financial officer Under Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act. *
- 99.1 Consulting Agreement between Upstream Consulting and Passport Potash Inc., dated effective December 1, 2011 (3)
- 99.2 Form of Professional Services Agreement between R. Dennis Ickes and Passport Potash Inc., dated December 14, 2011 (2)
- 99.3 Consulting Agreement between Transnational Enterprises Ltd. and Passport Potash Inc., dated January 1, 2012 (3)
- 99.4 Consulting Agreement between Double Jointed Solutions, LLC and Passport Potash Inc., dated January 16, 2012 (2)
- 99.5 Consulting Agreement between Jerry Aiken and Passport Potash Inc., dated January 25, 2012 (2)
- 99.6 Form of Convertible Debenture (7)
- 99.7 Consulting Agreement between Schlumberger Inc. and Passport Potash Inc., dated June 3, 2013(9)
- 101.INS XBRL Instance Document*
- 101.SCH XBRL Taxonomy Extension Schema*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase*
- 101.LAB XBRL Taxonomy Extension Label Linkbase*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase*

Notes:

(*) Filed herewith.

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- (1) Filed as an exhibit to our Registration Statement on Form 10 as filed with the SEC on June 29, 2012 and incorporated herein by reference.
- (2) Filed as an exhibit to our Registration Statement on Form 10 (Amendment No. 1) as filed with the SEC on September 21, 2012 and incorporated herein by reference.

- (3) Filed as an exhibit to our Registration Statement on Form 10 (Amendment No. 2) as filed with the SEC on October 12, 2012 and incorporated herein by reference.
- (4) Filed as an exhibit to our Current Report on Form 8-K as filed with the SEC on November 8, 2012 and incorporated herein by reference.
- (5) Filed as an exhibit to our Current Report on Form 8-K as filed with the SEC on November 23, 2012 and incorporated herein by reference.
- (6) Filed as an exhibit to our Quarterly Report on Form 10-Q as filed with the SEC on January 14, 2013 and incorporated herein by reference.
- (7) Filed as an exhibit to our Current Report on Form 8-K as filed with the SEC on February 25, 2013 and incorporated herein by reference.
- (8) Filed as an exhibit to our Annual Report on Form 10-K as filed with the SEC on May 31, 2013 and incorporated herein by reference.
- (9) Filed as an exhibit to our Quarterly Report on Form 10-Q as filed with the SEC on July 15, 2013 and incorporated herein by reference.
- (10) Filed as an exhibit to our Current Report on Form 8-K as filed with the SEC on July 24, 2013 and incorporated herein by reference.
- (11) Filed as an exhibit to our Current Report on Form 8-K as filed with the SEC on August 23, 2013 and incorporated herein by reference.
- (12) Filed as an exhibit to our Registration Statement on Form S-1/A (Amendment No. 4) as filed with the SEC on August 26, 2013 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PASSPORT POTASH INC.

By: /s/ Joshua Bleak
Joshua Bleak
President, Chief Executive Officer and a director
(Principal Executive Officer)
Date: October 15, 2013

By: /s/ Laara Shaffer
Laara Shaffer
Chief Financial Officer and a director
(Principal Financial Officer and
Principal Accounting Officer)
Date: October 15, 2013
