

**GOLD BULLION DEVELOPMENT CORP.**

**Condensed Interim Consolidated Financial Statements**

**March 31, 2013**

**Unaudited**

**GOLD BULLION DEVELOPMENT CORP.**

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**NOTICE TO READERS**

The accompanying unaudited interim financial statements of Gold Bullion Development Corp. have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that its independent auditor has not performed a review of these condensed unaudited interim financial statements.

*Signed 'Frank J. Basa"*

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**Frank J. Basa, President**

*Signed "Thomas P. Devlin"*

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**Thomas P. Devlin, Chief Financial Officer**

# GOLD BULLION DEVELOPMENT CORP.

## Interim Condensed Consolidated Statement of Financial Position

(Expressed in Canadian Dollars)

As at

March 31,  
2013  
Unaudited

June 30,  
2012  
Audited

### Assets

#### Current

Cash and cash equivalents	\$ 583,433	\$ 854,829
Receivables (Note 4)	1,380,296	4,780,833
Prepaid expenses	422,760	497,083
	<u>2,386,489</u>	<u>6,132,745</u>

Tax credit receivable - long-term (Note 4)

100,000 100,000

Deposit - long-term (Note 5)

171,800 171,800

Property, plant and equipment (Notes 8)

651,940 731,592

3,310,229 7,136,137

### Liabilities

#### Current

Trade and other payables (Note 6)	915,466	2,766,559
Term Loan payable (Note 9)	-	2,350,000
	<u>915,466</u>	<u>5,116,559</u>

### Shareholders' Equity

Share capital (Note 10)	50,525,878	46,935,108
Share-based payments reserve (Note 11)	6,865,737	8,238,587
Deficit	(54,996,852)	(53,154,117)

2,394,763 2,019,578

\$ 3,310,229 \$ 7,136,137

Nature and continuance of operations (Note 1)

Contingencies (Note 13)

Commitments (Note 14)

Subsequent event (Note 16)

Signed "Frank Basa"

Signed "Roger Thomas"

See accompanying notes to interim condensed consolidated financial statements.

# GOLD BULLION DEVELOPMENT CORP.

## Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2013	2012	2013	2012
<b>Revenue</b>				
Interest and other income	\$ -	\$ -	\$ 25,485	\$ -
Premium on flow through shares	\$ 898,156	1,819,838	898,156	1,819,838
	<b>898,156</b>	<b>1,819,838</b>	<b>923,641</b>	<b>1,819,838</b>
<b>Expenses</b>				
Exploration and evaluation (Note 7)				
Acquisition	-	-	36,710	211,500
Assaying and testing	3,216	81,304	227,393	716,525
Core analysis	-	1,372,463	15,535	1,372,463
Depreciation	13,644	23,232	40,932	67,069
Drilling	-	169,471	(88,375)	1,832,633
Equipment	5,837	147,946	32,771	730,219
Facility expenses	16,683	52,730	97,555	248,918
Geology, geophysics and surveys	-	-	-	-
Personnel costs	57,747	187,984	276,522	740,278
Program management and engineering	168,681	727,277	544,208	2,188,763
Royalty	-	-	15,000	15,000
Security	1,040	47,470	64,806	137,894
Staking	17,872	-	17,872	-
Taxes, permits and licensing	10,512	22,178	36,211	33,761
	<b>295,232</b>	<b>2,832,055</b>	<b>1,317,140</b>	<b>8,295,023</b>
Corporate				
Administrative and general expenses	32,132	43,428	119,414	124,601
Consulting fees	127,633	74,415	392,014	182,883
Financing charges	-	90,533	17,763	90,533
Management fees	102,680	129,089	322,177	338,232
Professional fees	104,154	61,413	202,280	310,867
Filing costs and shareholders' information	116,170	260,239	196,750	531,660
Travel	53,085	67,977	123,288	209,995
Stock-based compensation	57,150	580,200	75,550	863,100
	<b>593,004</b>	<b>1,307,294</b>	<b>1,449,236</b>	<b>2,651,871</b>
<b>Total expenses</b>	<b>888,236</b>	<b>\$ 4,139,349</b>	<b>2,766,376</b>	<b>10,946,894</b>
<b>Net loss and comprehensive loss for the period</b>	<b>\$ 9,920</b>	<b>\$ (2,319,511)</b>	<b>\$ (1,842,735)</b>	<b>\$ (9,127,056)</b>
<b>Net loss per share - basic and fully diluted</b>	<b>\$ 0.00</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.05)</b>
<b>Weighted average number of shares outstanding basic and fully diluted</b>	<b>213,841,167</b>	<b>199,851,137</b>	<b>210,913,121</b>	<b>179,497,577</b>

See accompanying notes to interim condensed consolidated financial statements.

# GOLD BULLION DEVELOPMENT CORP.

## Interim condensed Consolidated Statement of Changes in Equity

Unaudited

(Expressed in Canadian Dollars)

	Share Capital	Share Based Payments Reserve	Deficit	Total Equity
Balance June 30, 2011	\$ 39,778,799	\$ 9,021,839	\$ (42,433,635)	\$ 6,367,003
Issued for property	211,500	-	-	211,500
Issued by private placement	4,010,152	569,877	-	4,580,029
Premium on flow-through shares	(248,429)	-	-	(248,429)
Options Granted	-	863,100	-	863,100
Exercise of warrants	714,537	(242,216)	-	472,321
Exercise of Options	13,275	(5,775)	-	7,500
Warrants expired	1,790,666	(1,790,666)	-	-
Options expired	-	(163,800)	163,800	-
Net loss for the nine months ended Mar. 31, 2012	-	-	(9,127,056)	(9,127,056)
Balance March 31, 2012	46,270,500	8,252,359	(51,396,891)	3,125,968
Issued by private placement	1,082,941	49,044	-	1,131,985
Premium on flow-through shares	(493,849)	-	-	(493,849)
Options Granted	-	-	-	-
Options vested	-	12,700	-	12,700
Warrants expired	169,790	(169,790)	-	-
Warrants extended	(94,274)	94,274	-	-
Net loss for the three months ended June 30, 2012	-	-	(1,757,226)	(1,757,226)
Balance June 30, 2012	46,935,108	8,238,587	(53,154,117)	2,019,578
Issued for property	34,500	-	-	34,500
Issued by private placement	2,393,231	278,118	-	2,671,349
Premium on flow-through shares	(662,292)	-	-	(662,292)
Options vested	-	24,100	-	24,100
Warrants exercised	116,813	(18,000)	-	98,813
Options granted	-	51,450	-	51,450
Warrants expired	1,708,518	(1,708,518)	-	-
Net loss for the nine months ended Mar. 31, 2013	-	-	(1,842,735)	(1,842,735)
<b>Balance March 31, 2013</b>	<b>\$ 50,525,878</b>	<b>\$ 6,865,737</b>	<b>\$ (54,996,852)</b>	<b>\$ 2,394,763</b>

See accompanying notes to interim condensed consolidated financial statements.

**GOLD BULLION DEVELOPMENT CORP.**  
**Interim condensed Consolidated Statements of Cash flows**  
**Unaudited**

(Expressed in Canadian Dollars)

For the nine months ended March 31,

2013

2012

**Cash Flows From**

**Operating activities**

Net loss and comprehensive loss for the year	\$ (1,842,735)	\$ (8,963,256)
Items not involving cash		
Depreciation	40,932	67,069
Stock-based compensation	75,550	699,300
Acquisition of property for shares	34,500	211,500
Changes in non-cash working capital items		
Receivables	3,400,537	785,557
Prepaid expenses	74,323	70,173
Trade and other payables	(2,513,385)	(1,871,365)
	<u>(730,278)</u>	<u>(9,001,022)</u>

**Investing activities**

Acquisitions of equipment	(28,000)	(296,219)
Proceeds from sale of vehicles	66,720	-
	<u>38,720</u>	<u>(296,219)</u>

**Financing activities**

Issue of common shares and warrants	2,671,349	4,580,029
Exercise of options	-	7,500
Exercise of warrants	98,813	472,321
Repayment of term loan	(2,350,000)	2,350,000
	<u>420,162</u>	<u>7,409,850</u>

**(Decrease) in cash and cash equivalents during the period** (271,396) (1,887,391)

**Cash and cash equivalents, beginning of year** 854,829 3,777,362

**Cash and cash equivalents, end of oeriod** \$ 583,433 \$ 1,889,971

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Interest paid \$ 17,763

See accompanying notes to interim condensed consolidated financial statements.

**GOLD BULLION DEVELOPMENT CORP.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**Unaudited**  
**(Expressed in Canadian Dollars)**  
**March 31, 2013**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Gold Bullion Development Corp. ("Gold Bullion" or the "Company") is a company domiciled in Canada and was incorporated on July 17, 1985 under the Company Act of British Columbia. The Company is a publicly traded company with its shares listed on TSX Venture Exchange and the Frankfurt Stock Exchange and also trades on the US OTC market.

These interim condensed consolidated financial statements comprise the financial statements of Gold Bullion Development Corp. and its wholly-owned subsidiary Castle Silver Mines Inc. (collectively the "Company" or the "Group")

The principal business of the Group is the acquisition, exploration and development of mineral property interests. The business of mining and exploring for minerals involves a high degree of risk, and there can be no assurance that planned exploration and development programs will result in profitable mining operations

The head office of the Company is at Suite 1005, 1155 Rene Levesque Blvd. West, Montreal, Quebec.

These interim condensed consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed inappropriate. Such adjustments could be material.

At March 31, 2013, the Company had not yet achieved profitable operations, has accumulated losses of \$54,996,852 (June 30, 2012 - \$53,154,117) since its inception, has working capital of \$1,471,023 (June 30, 2012 - \$1,016,186) and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will have to find additional funds to continue its exploration activities, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continuing existence is dependent upon the discovery of economically recoverable reserves and resources, the preservation of its interest in the underlying properties, the ability of the Company to obtain necessary financing to complete exploration, development and construction of processing facilities, obtaining certain government approvals and the achievement of profitable operations. Changes in future conditions could require material write-downs of the carrying values. The Company's assets may also be subject to increases in royalties and taxes, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

**GOLD BULLION DEVELOPMENT CORP.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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**1. NATURE OF OPERATIONS AND GOING CONCERN (cont'd)**

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

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing accumulated operating losses the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

**2. BASIS OF PREPARATION**

These interim condensed consolidated financial statements were approved and authorized by the directors of the Company on May 28, 2013.

**(a) Statement of Compliance**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"), which incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, these condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

**(b) Basis of Measurement**

These interim condensed consolidated financial statements have been prepared on the historic cost basis, except financial instruments that have been measured at fair value. In addition, these interim condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**(c) Functional and Presentation Currency**

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company does not have any foreign operations.



**2. BASIS OF PREPARATION (cont'd)**

**(d) Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and assumptions are based on management's best knowledge of the amounts, events or actions, actual results may ultimately differ from these estimates.

*Decommissioning and restoration costs*

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of the Company's assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is the Company's credit adjusted rate.

*Income taxes*

Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the yearend date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

*Share-based payments*

The Company uses the fair value method of valuing compensation expense associated with the Company's stock option plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, expected forfeitures and distribution yield. Such judgements and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

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**2. BASIS OF PREPARATION (cont'd)**

**Significant Judgements, Estimates and Assumptions (cont'd)**

Premium on Flow-through shares

At the time of issue, the Company estimates the proportion of proceeds attributed to the flow-through share, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded in trade and other payables on the statement of financial position. Once the flow-through shares investment has been renounced to investors this payable is transferred to the statement of operations.

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at June 30, 2012 included a bank guaranteed investment (GIC) in amount of \$150,000 bearing interest at 1.2% annually and redeemable at anytime. This GIC was redeemed on August 28, 2012.

**4. RECEIVABLES**

	March 31, 2013	June 30, 2012
Commodity taxes	\$ 101,476	\$ 370,071
Tax credits receivable	1,278,820	4,410,762
	<u>\$ 1,380,296</u>	<u>\$ 4,780,833</u>

The Company is entitled to a refundable tax credit up to 35% on qualified mining exploration expenditures incurred in the Province of Quebec and a refund of mining duties at an effective rate up to 7.5% on qualified Canadian exploration expenditures net of the refundable tax credit. These refunds are applied against the exploration expenses and included in tax credits receivable.

**5. DEPOSIT – LONG TERM**

As at March 31, 2013 and June 30, 2012, the Company has a non-interest bearing cash deposit of \$171,800 with the Quebec government as a guarantee for the restoration of the Granada mine site.

**6. TRADE AND OTHER PAYABLES**

	March 31, 2013	June 30, 2012
Trade payables	\$ 902,828	\$ 1,419,672
Due to related parties	12,638	1,111,023
Flow-through premium Liability	-	235,864
	<u>\$ 915,466</u>	<u>\$ 2,766,559</u>

## **7. EXPLORATION AND EVALUATION PROJECTS**

The Company has determined that as at March 31, 2013 the following projects have not met the technical feasibility and commercial viability criteria to be capitalized and classified in mining properties, accordingly the Company has expensed all exploration and evaluation expenditures in the year. At March 31, 2013 and June 30, 2012 the Company did not hold any assets classified as mining properties.

The Company currently has interests in the following resources projects:

a) Granada Property, Quebec, Canada

The Company holds a 100% interest to 1 mining patent, 2 leases and mining claims covering a total area of approximately 11,598 hectares. The mining leases are subject to a 2% GMR, ½ of which may be purchased for \$1,000,000 and a 1% NSR and certain other claims are subject to a 2% NSR whereby 1% NSR may be purchased for \$1,000,000. Cumulative exploration and evaluation expenditures made by the Company on this project as at March 31, 2013 totaled \$22,947,335 (June 30, 2012 – \$21,896,440).

b) Castle Property, Ontario, Canada

The Company, through its wholly owned subsidiary, Castle Silver Mines Inc., holds a 100% interest to 34 claims and 2 parcels located in the Haultain and Nicol townships of Ontario covering a total of 564.41 hectares. The property is subject to a sliding scale royalty on silver production which will start from 3% when the price of silver is US\$15 or lower per troy ounce and up to 5% when the price of silver is greater than US\$30 per troy ounce and a 5% gross overriding royalty on the sale of products derived from the property with a minimum annual payment of \$15,000 in the form of royalties on all future production from the property. Cumulative exploration and evaluation expenditures made by the Company on this project as at March 31, 2013 totaled \$2,815,479 (June 30, 2012 – \$2,552,988).

c) Beaver Property, Ontario, Canada

The Company holds a 5 year option to acquire a 100% interest to an area of approximately 20 acres in Coleman Township, Ontario. The property is subject to a 3% net smelter return royalty, and the Company may purchase each 1% of the NSR royalty for \$1.5 million.

The option agreement requires that the Company:

a) Pay to the optionor the sum of \$10,000 upon execution of this Agreement; and

b) Incur exploration expenditures aggregating \$100,000 on the property over a period of seven years as follows: \$20,000 in each year on or before May 10, 2012, May 10, 2013, May 10, 2014, and \$10,000 in each of the further additional four years on or before May 10, 2018.

**GOLD BULLION DEVELOPMENT CORP.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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**7. EXPLORATION AND EVALUATION PROJECTS (cont'd)**

c) Pay to the optionor, as prepayment of the Net Smelter Royalty the following amounts, commencing July 1, 2012 and continuing for a period of five years or until the property is put into commercial production, whichever is earlier:

Date of payment	Amount
July 1, 2012	\$10,000
July 1, 2013	\$10,000
July 1, 2014	\$10,000
July 1, 2015	\$15,000
July 1, 2016	\$15,000

At March 31, 2013, the Company had paid the required \$20,000 and incurred cumulative exploration expenditures in the amount of \$94,159 (June 30, 2012 - \$90,585).

The following schedule provides the details of the company's expenditures, by project, on its exploration and evaluation projects for the nine months ended March 31, 2013 and 2012.

	for the nine months ended				for the nine months ended			
	March 31, 2013				March 31, 2012			
	Granada	Castle	Beaver	Total	Granada	Castle	Beaver	Total
Acquisition	\$ 34,500	\$ 2,210	\$ -	\$ 36,710	201,500	\$ -	\$10,000	\$ 211,500
Assaying and testing	219,913	7,480	-	227,393	667,433	48,965	127	716,525
Core analysis	15,535	-	-	15,535	1,372,463	-	-	1,372,463
Depreciation	40,932	-	-	40,932	67,069	-	-	67,069
Drilling	(88,375)	-	-	(88,375)	1,755,202	77,431	-	1,832,633
Equipment	15,683	17,088	-	32,771	597,722	103,220	29,277	730,219
Facility expenses	56,237	41,318	-	97,555	169,754	78,064	1,100	248,918
Geology, geophysics and surveys	-	-	-	-	-	-	-	-
Personnel costs	224,292	48,476	3,754	276,522	623,348	100,732	16,198	740,278
Program management and engineering	443,646	100,562	-	544,208	1,974,566	171,513	42,684	2,188,763
Royalty	-	15,000	-	15,000	-	15,000	-	15,000
Security	54,106	10,700	-	64,806	137,894	-	-	137,894
Staking	-	17,872	-	17,872	-	-	-	-
Taxes, permits and licensing	34,426	1,785	-	36,211	31,534	1,784	443	33,761
	\$1,050,895	\$262,491	\$3,754	\$1,317,140	\$7,598,485	\$596,709	\$ 99,829	\$8,295,023

**GOLD BULLION DEVELOPMENT CORP.**  
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**8. PROPERTY, PLANT AND EQUIPMENT**

	March 31, 2013				June 30, 2012	
	Cost June 30, 2012	Additions (Disposals)	Cost March 31 2013	Accumulated Amortization	Net	Net
Gravity plant	\$240,999	\$ -	\$ 240,999	\$ 46,420	\$ 94,579	\$ 208,955
Buildings	395,559	-	395,559	30,914	364,645	95,365
Equipment	17,992	28,000	45,992	17,168	28,824	7,389
Vehicles	340,321	(66,720)	273,601	209,709	63,892	213,088
	<b>\$ 994,871</b>	<b>\$ (38,720)</b>	<b>\$ 956,151</b>	<b>\$ 304,211</b>	<b>\$ 651,940</b>	<b>\$ 524,797</b>

**9. TERM LOAN PAYABLE**

At June 30, 2012 the Company had a Term Loan Payable to a Canadian financial institution which was repaid on August 28, 2012.

**10. SHARE CAPITAL**

**Authorized**

Unlimited number of common shares without par value

**Issued**

	2013		2012	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	207,985,074	\$ 46,935,108	166,707,705	\$ 39,778,799
Private placements	19,564,400	2,934,660	36,366,359	6,187,584
Premium on flow-through shares	-	(662,292)	-	(742,278)
Exercise of options - cash	-	-	75,000	7,500
Exercise of options - expense value	-	-	-	5,775
Exercise of warrants - cash	637,500	98,813	3,936,010	472,321
Exercise of warrants - book value	-	18,000	-	242,216
Share issue costs	-	(290,425)	-	(496,441)
Value of warrants issued	-	(251,004)	-	(598,050)
Warrants expired	-	1,708,518	-	1,960,456
Warrants extended	-	-	-	(94,274)
Issued for property	300,000	34,500	900,000	211,500
Balance, end of period	<b>228,486,974</b>	<b>\$ 50,525,878</b>	207,985,074	\$ 46,935,108

**GOLD BULLION DEVELOPMENT CORP.**  
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**10. SHARE CAPITAL (con't)**

On November 30, 2012 pursuant to a non-brokered private placement, the Company issued 16,231,066 units at \$0.15 per unit and on December 28, 2012 3,333,334 units at \$0.15 to raise gross proceeds of \$2,934,660. Each Unit consists of one common share and one-half of a transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of one year from the date of issuance, at a purchase price of \$0.18 per share. The fair value of the warrants was determined, using the Black-Scholes option pricing model, to be \$251,004. In connection with the Private Placement, the Company paid finder's fees of \$256,311 and issued 1,511,818 non-transferable broker warrants to the respective finder. Of these broker warrants, 266,666 will entitle the holder to purchase 266,666 common shares for a period of one year from the date of issuance, at a purchase price of \$0.15 per share and 1,245,152 broker warrants will entitle the holder to purchase 1,245,152 units for a period of one year from the date of issuance, at a purchase price of \$0.15 per unit. The fair value of the broker warrants was determined, using the Black-Scholes option pricing model, to be \$54,427.

On November 12, 2012 the Company issued 300,000 common shares valued at \$34,500 (\$0.115 per share) pursuant to the November 22, 2010 agreement to acquire 174 mining claims in the Company's Granada property.

**11. SHARE-BASED PAYMENTS RESERVE**

	Number of Options	Weighted Average Exercise Price	Value of Options	Number of Warrants	Weighted Average Exercise Price	Value of Warrants	Total Value
Balance June 30, 2012	17,590,000	0.32	\$6,417,675	27,945,954	0.22	\$1,820,912	\$8,238,587
Exercised	-	-	-	(637,500)	0.16	(18,000)	(18,283)
Expired	(100,000)	0.14	-	(22,655,183)	0.30	(1,708,518)	(1,708,235)
Vesting	-	-	24,100	-	-	-	24,100
Granted	1,500,000	-	51,450	9,782,200	0.18	223,691	275,141
Issued for compensation	-	-	-	1,511,829	0.15	54,427	54,427
Balance March 31, 2012	18,990,000	0.32	\$6,493,225	15,947,300	0.176	\$372,512	\$6,865,737

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**11. SHARE-BASED PAYMENTS RESERVE (cont'd)**

**Warrants**

A summary of the Company's outstanding warrants as at March 31, 2013 is presented below. Each warrant entitles the holder to purchase one common share:

Number of Warrants	Exercise Price	Expiry Date
4,066,613	0.175	April 24, 2013
586,658	0.175	April 24, 2013
8,115,533	0.180	November 30, 2013
* 1,245,152	0.150	November 30, 2013
1,666,667	0.180	December 27, 2013
266,666	0.150	December 27, 2013
<u>15,947,290</u>	<u>0.176</u>	

- These are compensation warrants that entitle the holder to subscribe for units at \$0.15. Each Unit consists of one common share and one-half of a transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of one year from the date of issuance, at a purchase price of \$0.18 per share

**Options**

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years from the date of grant. All options are subject to a four month holding period from the date of grant if granted at the price lower than the market price; options granted at market prices are not subject to the hold period. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company which may be reserved for the issuance shall be 10% of the issued and outstanding shares at the time of the option grant.

The Company records the fair value of stock-based compensation on the granting of stock options over the period in which they vest. The fair value is determined using the Black-Scholes option pricing model. For the nine months ended March 31, 2013, the Company recorded stock-based compensation expense of \$24,100 for 500,000 previously issued options that vested

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**11. SHARE-BASED PAYMENTS RESERVE (cont'd)**

A summary of the Company's outstanding options as at March 31, 2013 is presented below. Each option entitles the holder to purchase one common share:

Number of Options	Options Vested	Exercise Price	Expiry Date
50,000	50,000	0.10	May 11, 2014
1,300,000	1,300,000	0.10	September 9, 2014
500,000	500,000	0.10	February 12, 2015
125,000	125,000	0.15	March 3, 2015
100,000	100,000	0.19	March 8, 2015
200,000	200,000	0.20	April 7, 2013
50,000	50,000	0.20	April 7, 2015
400,000	400,000	0.29	April 25, 2015
5,965,000	5,965,000	0.46	June 21, 2015
200,000	200,000	0.47	September 22, 2015
900,000	900,000	0.48	October 6, 2015
1,200,000	1,200,000	0.65	January 5, 2016
850,000	850,000	0.35	March 25, 2016
300,000	300,000	0.35	July 14, 2016
4,450,000	4,450,000	0.13	January 4, 2022
100,000	100,000	0.13	January 4, 2022
200,000	200,000	0.15	March 9, 2017
600,000	600,000	0.15	March 9, 2014
600,000	600,000	0.10	February 15, 2018
150,000	150,000	0.10	March 11, 2018
150,000	150,000	0.10	March 11, 2014
600,000	-	0.10	March 11, 2018
<u>18,990,000</u>	<u>18,390,000</u>	<u>0.30</u>	

**12. RELATED PARTY TRANSACTIONS**

All related party transactions are in the normal course of operations and are measured at the exchange amounts.

- 1) The Company retains the services of a company owned by an officer and director of the Company to carry out exploration work on its resource properties and for management services. During the nine months ended March 31, 2013, the total amount for such services provided was \$299,578, of which \$149,789 was recorded in exploration expenses and \$149,789 in management fees. (Note 14).
- 2) The Company retains the services of an officer and director, a directors and an officer to carry out administrative services. During the nine months ended March 31, 2013, the total amount for such services provided was of \$244,379, of which \$172,379 was recorded in management fees and \$72,000 was recorded in consulting fees. (Note 14).



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**12. RELATED PARTY TRANSACTIONS (cont'd)**

- 3) The Company has advanced and paid expenses in the amount of \$1,451,160 to and on behalf of its wholly owned subsidiary. The balance is not interest bearing with no specific terms of repayments. The amount was eliminated in preparing the interim condensed consolidated financial statements.

**13. CONTINGENCIES**

- a) The Company's operations are subject to governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable, whether with the outcomes, the impacts or the deadline. At the date of the financial statements and to the best knowledge of its management, the Company is, at the present, in conformity with the laws and regulations except as disclosed in note 13(b) below. Restoration costs will be accrued in the financial statements only when they can be reasonably estimated and will be charged to the earnings at that time.
- b) The Company is partly financed by the issuance of flow-through shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian exploration expenditures, even if the Company has taken all the necessary measures for this purpose. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work no later than the first of the following dates:

- Two years following the flow-through investment;
- One year after the Company has renounced the tax deductions relating to the exploration work.

Commitments to carry out exploration work that are not respected are subject to a combined tax rate of 26.9% (Federal and Provincial).

During the nine months ended March 31, 2013, the Company received \$2,934,660 from flow-through share issuances. According to the tax rules, the Company has until December 31, 2013 to spend this amount on qualified exploration expenditures

- c) As at June 30, 2011, the Company was assessed \$550,562 for Quebec Sales Tax and Goods and Services Tax, which has been paid. The Company has filed a notice of objection with the Ministère du Revenu du Québec for these assessments.
- d) On March 15, 2012, Genivar Inc. instituted a lawsuit against the Company in the Québec Superior Court, claiming approximately \$785,000 in unpaid fees. The action relates to work which Genivar performed for Gold Bullion, primarily with respect to its Granada gold property in northwestern Québec.

Gold Bullion will vigorously defend the action and has instituted a counter-claim against Genivar, under which Gold Bullion has claimed damages from Genivar, due to the poor quality of the work performed by it and the costs incurred by Gold Bullion to have portions of the work done a second time, in the amount of \$25,431,906.

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**13. CONTINGENCIES (cont'd)**

Gold Bullion paid approximately \$1.7 million to Genivar in connection with this work over a period of three years, but stopped making payments in May 2011 due to Gold Bullion's dissatisfaction with the quality of the work.

The claim and counter-claim are presently in their infancy in that examinations began to take place on May 23, 2013. The facts reviewed by the Company's legal counsel indicate that the Company has a strong defense to the claim asserted by the supplier and has serious grounds supporting its counter-claim.

**14. COMMITMENTS**

- (1) Effective January 1, 2007, the Company entered into a management agreement with Grupo Moje Limited ("Grupo"), a company owned by a director and officer of the Company. The fee for management services is 20 ounces of gold per month. The dollar amount calculated is based on the price of gold which is quoted in U.S. dollars convert into Canadian dollars on the same date as at the end of each quarter. Either party may terminate this engagement by giving four months notice to the other subject to certain provisions of the agreement. Effective December 1, 2010 this agreement was amended to require that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to Grupo equal to 240 ounces of gold with the dollar amounts to be calculated based on the price of gold on the date of termination of the agreement.
- (2) Effective July 1, 2010, the Company entered into a consulting agreement with a director and officer of the Company. The fee for consulting services is \$7,500 per month. Either party may terminate this engagement by giving four months notice to the other, subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of \$90,000. Effective January 1, 2012 this agreement was amended as follows: The fee for consulting services is \$9,500 per month and if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of \$114,000.
- (3) Effective December 1, 2010, the Company entered into an agreement with a consultant of the Company. The fee for consulting services is \$6,500 per month. Either party may terminate this engagement by giving four months notice to the other subject to certain provisions of the agreement. The agreements also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make payments to the consultant in the amounts of \$78,000. Effective October 1, 2011, the agreement was amended as follows: The fee for consulting services is \$8,000 (previously \$6,500) per month and if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of \$96,000 (previously \$78,000). In April 2012, this consultant was appointed a director of the Company.

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**14. COMMITMENTS (cont'd)**

- (4) Effective March 1, 2011, the Company entered into a consulting agreement with an officer of the Company. The fee for consulting services is USD \$6,000 per month. Either party may terminate this engagement by giving four months notice to the other subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of USD \$72,000. Effective February 1, 2012, this agreement was amended as follows: The fee for consulting services is USD \$8,000 per month and if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of USD \$96,000.
- (5) Effective December 1, 2010, the Company entered into an agreement with a consultant of the Company. The fee for consulting services is \$6,000 per month. Either party may terminate this engagement by giving four months notice to the other subject to certain provisions of the agreement. The agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make payments to the consultant in the amounts of \$72,000. Effective January 1, 2012, the agreement was amended as follows: The fee for consulting services is \$8,000 (previously \$6,000) per month and if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of \$96,000 (previously \$72,000).
- (6) The Company's subsidiary, Castle Silver Mines Inc. is committed through the Purchase and Sale Agreement with Gold Bullion to pay an annual royalty payment in amount of \$15,000 to Milner Consolidated.
- (7) The Company's subsidiary, Castle Silver Mines Inc. has entered into a Memorandum of Understanding (MOU) with the Matachewan First Nations in connection with certain exploration and development programs in their area in return for contributions towards education and environmental activities and the improvement of community facilities. Under this agreement, the Company must pay 2% of all costs of the exploration program incurred to date and thereafter. As at March 31, 2013 the company has prepaid \$15,000 of this amount.

In addition the Company must issue 50,000 common shares and 50,000 common share options to the Matachewan first Nations subject to approval of the TSX Venture Exchange on the following schedule:

- i) 25% on the approval of the TSX Venture Exchange
- ii) 25% six months after the date of the MOU
- iii) 25% 12 months after the date of the MOU and
- iv) 25% 18 months after the date of the MOU

#### **14. COMMITMENTS (cont'd)**

On February 14, 2012 Gold Bullion announced it had decided to postpone, for market reasons, the previously-announced initial public offering by Castle Silver as set out in its final prospectus dated November 10, 2011, and subsequent listing on the TSX Venture Exchange. In view of this, Gold Bullion will be responsible for issuance of the common shares and stock options, subject to application to and approval of the TSX Venture Exchange.

#### **15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES**

##### **Overview**

The Company's financial instruments consist of cash and cash equivalents, receivables, trade and other payables, due to related parties and long-term debt. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. Due to their short term nature, the fair value of these financial instruments approximates their carrying value.

The Company has exposure to the following risks from its use of financial instruments:

- Interest rate risk;
- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

##### **Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfils its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team.

## **15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES (cont'd)**

### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balance is to invest excess cash in financial instruments guaranteed by and held with a Canadian chartered bank.

As at March 31, 2013, the Company's exposure to interest rate risk is summarized as follows

Cash and cash equivalents	Interest 0 to 1.2%
Receivables	Non-interest bearing
Trade and other payables	Non-interest bearing

### **Credit Risk**

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and receivables.

### **Cash and cash equivalents**

The Company's cash is held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper.

### **Receivables**

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation.

## **15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES (cont'd)**

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

### **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Company's income, the value of its EEP properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### **a) Price risk**

The Company is exposed to price risk with respect to fluctuation in gold and silver prices which impacts the future economic feasibility of its mining interests. Gold and silver prices are affected by numerous factors such as the sale or purchase of gold and silver by various institutions, interest rates, exchange rates, inflations in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold and silver producing countries throughout the world.

#### **b) Foreign currency exchange risk**

The Company is exposed to foreign currency exchange risk with respect to future gold and silver sales, since gold and silver sales are denominated in US dollars and the Company's currency is the Canadian dollar. The Movement on US rates may impact the future economic feasibility of the Company's mining interests

### **Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

## **15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES (cont'd)**

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The Company has a small but hands-on and experienced executive team which facilitates communication across the Company. This expertise is supplemented, when necessary, by the use of experienced consultants in legal, compliance and industry-related specialties. The Company also has standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- development of contingency plans;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective and available.

### **Capital Management Disclosures**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation projects. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company considers its Capital to be equity, which is comprised of common shares, share based payments reserves and deficit, which as at December 31,, 2012 totalled \$2,343,229 (June 30, 2012 – \$2,019,478).

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company currently has no source of revenues, and therefore is dependent on external financing to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended June 30, 2012. The Company is not subject to external imposed capital requirements.

## **16. SUBSEQUENT EVENT**

On September 10, 2008, the Company received 40 statements of offence pursuant to the *Environment Quality Act* (Québec) (the "Act") for allegedly failing to comply with certain conditions of its permit for a current project on the Company's Granada property and for non-respect of the Act. The statements of offence related to the period from October 6, 2006 to November 14, 2007. The prosecution was requiring fines amounting to \$72,000 plus the cost of the penal proceeding amounting to \$69,498 for a total of \$141,498. On March 15, 2013 the Company settled the case by pleading guilty to 18 of the statements of offence. The remaining 22 statements of offence were withdrawn by the prosecution. The Company agreed to pay the minimum fine on each of the 18 statements as well as fees at the rate established by regulation of the Minister pursuant to section 116.1.1 of the Act relating to the costs of sampling, analysis, inspection and investigation for the penal proceedings instituted for the purposes of the Act. The aggregate amount of \$54,380 was charged to the Company for said fines and fees. The Company paid this amount on April 25, 2013.