

# **Montana Gold Mining Company Inc.**

## **Consolidated Financial Statements**

(Expressed in United States Dollars)

**For the Years Ended December 31, 2014 and 2013**

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Montana Gold Mining Company Inc.

We have audited the accompanying consolidated financial statements of Montana Gold Mining Company Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2014 and December 31, 2013 and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Montana Gold Mining Company Inc. and its subsidiaries as at December 31, 2014 and December 31, 2013, and the results of its operations and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

#### *Emphasis of Matter*

Without qualifying our opinion we draw attention to Note 1 in the consolidated financial statements which describes material uncertainties that cast significant doubt about Montana Gold Mining Company Inc.'s ability to continue as a going concern.

*Collins Barrow Toronto LLP*

Licensed Public Accountants  
Chartered Accountants  
April 29, 2015  
Toronto, Ontario

**Montana Gold Mining Company Inc.**  
**Consolidated Statements of Financial Position**  
(Expressed in United States Dollars)  
**As at December 31, 2014 and 2013**

|  | 2014              | 2013              |
|--|-------------------|-------------------|
| <b>Assets</b>  |                   |                   |
| <b>Current</b>   |                   |                   |
| Cash   | \$ 44,681         | \$ 17,744         |
| HST receivable   | 26,371            | 4,607             |
| Prepaid expenses   | 1,258             | 1,258             |
|  | <b>72,310</b>     | 23,609            |
| <b>Mining claims and deferred exploration expenditures</b><br>(Note 4) | <b>510,791</b>    | 490,499           |
| <b>Reclamation bonds</b> (Note 6)                                      | <b>15,271</b>     | 40,271            |
|  | <b>\$ 598,372</b> | <b>\$ 554,379</b> |
| <b>Liabilities</b>   |                   |                   |
| <b>Current</b>   |                   |                   |
| Accounts payable and accrued liabilities (Notes 5 and 12)              | \$ 479,327        | \$ 537,856        |
| <b>Restoration liabilities</b> (Note 6)                                | -                 | 22,000            |
| <b>Foreign currency warrants</b> (Note 8)                              | <b>248,787</b>    | 185,472           |
|  | <b>728,114</b>    | 745,328           |
| <b>Shareholders' Deficiency</b>  |                   |                   |
| Capital stock (Note 7)   | 8,135,733         | 7,830,163         |
| Contributed surplus  | 1,606,868         | 1,502,612         |
| Deficit  | (9,872,343)       | (9,523,724)       |
|  | <b>(129,742)</b>  | (190,949)         |
|  | <b>\$ 598,372</b> | <b>\$ 554,379</b> |

*Nature of Operations and Going Concern (Note 1)*  
*Litigation (Note 16)*  
*Subsequent events (Note 17)*

Approved by the Board           "Edward Ellwood"            
Director (Signed)

          "Eric Plexman"            
Director (Signed)

**Montana Gold Mining Company Inc.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
(Expressed in United States Dollars)  
**Years Ended December 31, 2014 and 2013**

|   | 2014                | 2013                |
|---|---------------------|---------------------|
| <b>Expenses</b>   |                     |                     |
| Office and administrative costs (Note 12)                     | \$ 393,682          | \$ 463,574          |
| Professional fees   | 57,954              | 88,781              |
| Stock-based compensation (Note 8)                             | 104,256             | -                   |
|   | <b>555,892</b>      | <b>552,355</b>      |
| <b>Other expenses (income)</b>                                |                     |                     |
| Gain on foreign exchange                                      | (44,110)            | (39,586)            |
| Gain on revaluation of foreign currency warrants<br>(Note 8)  | (84,055)            | (75,620)            |
| Reversal of management and director fees payable<br>(Note 12) | (57,108)            | (239,794)           |
| Reversal of accounts payable (Note 11)                        | -                   | (96,909)            |
| Reversal of restoration liabilities (Note 6)                  | (22,000)            | -                   |
|   | <b>(207,273)</b>    | <b>(451,909)</b>    |
| <b>Net loss and comprehensive loss</b>                        | <b>\$ (348,619)</b> | <b>\$ (100,446)</b> |

**Loss per share (Note 9)**

|                   |            |            |
|-------------------|------------|------------|
| Basic and diluted | \$ (0.008) | \$ (0.003) |
|-------------------|------------|------------|

**Weighted average number of common shares outstanding (Note 9)**

|                   |            |            |
|-------------------|------------|------------|
| Basic and diluted | 42,447,523 | 33,282,651 |
|-------------------|------------|------------|

**Montana Gold Mining Company Inc.**  
**Consolidated Statements of Changes in Equity**  
(Expressed in United States Dollars)  
**Years Ended December 31, 2014 and 2013**

|  | Number of<br>Shares | Capital<br>Stock<br>(Note 7) | Contributed<br>Surplus<br>(Note 8) | Deficit               | Total               |
|--|---------------------|------------------------------|------------------------------------|-----------------------|---------------------|
| <b>Balance, December 31, 2012</b>        | <b>30,631,007</b>   | <b>\$ 7,652,666</b>          | <b>\$ 1,502,612</b>                | <b>\$ (9,327,925)</b> | <b>\$ (172,647)</b> |
| Net loss and comprehensive loss          | -                   | -                            | -                                  | (100,446)             | (100,446)           |
| Units issued for cash                    | 6,650,000           | 324,736                      | -                                  | -                     | 324,736             |
| Allocated to warrants                    | -                   | (147,239)                    | -                                  | -                     | (147,239)           |
| Fair value of warrants extended (Note 8) | -                   | -                            | -                                  | (95,353)              | (95,353)            |
| <b>Balance, December 31, 2013</b>        | <b>37,281,007</b>   | <b>\$ 7,830,163</b>          | <b>\$ 1,502,612</b>                | <b>\$ (9,523,724)</b> | <b>\$ (190,949)</b> |
| Net loss and comprehensive loss          | -                   | -                            | -                                  | (348,619)             | (348,619)           |
| Shares issued to settle debt             | 2,584,613           | 153,603                      | -                                  | -                     | 153,603             |
| Units issued for cash                    | 6,610,765           | 299,336                      | -                                  | -                     | 299,336             |
| Allocated to warrants                    | -                   | (147,369)                    | -                                  | -                     | (147,369)           |
| Stock-based compensation                 | -                   | -                            | 104,256                            | -                     | 104,256             |
| <b>Balance, December 31, 2014</b>        | <b>46,476,385</b>   | <b>\$ 8,135,733</b>          | <b>\$ 1,606,868</b>                | <b>\$ (9,872,343)</b> | <b>\$ (129,742)</b> |

**Montana Gold Mining Company Inc.**  
**Consolidated Statements of Cash Flows**  
(Expressed in United States Dollars)  
**Years Ended December 31, 2014 and 2013**

|   | 2014             | 2013             |
|---|------------------|------------------|
| <b>Cash provided by (used in)</b>                   |                  |                  |
| <b>Operations</b>                                   |                  |                  |
| Net loss  | \$ (348,619)     | \$ (100,446)     |
| Items not affecting cash:                           |                  |                  |
| Gain on revaluation of foreign currency warrants    | (84,055)         | (75,620)         |
| Reversal of management and director fees payable    | (57,108)         | (239,794)        |
| Reversal of accounts payable                        | -                | (96,909)         |
| Reversal of restoration liabilities                 | (22,000)         | -                |
| Stock-based compensation                            | 104,256          | -                |
|   | <b>(407,526)</b> | <b>(512,769)</b> |
| Net changes in non-cash working capital:            |                  |                  |
| HST receivable                                      | (21,764)         | (2,005)          |
| Prepaid expenses                                    | -                | (52)             |
| Accounts payable and accrued liabilities            | 152,183          | 231,256          |
|   | <b>(277,107)</b> | <b>(283,570)</b> |
| <b>Investing</b>                                    |                  |                  |
| Mining claims and deferred exploration expenditures | (20,292)         | (39,695)         |
| Proceeds from release of reclamation bond           | 25,000           | -                |
|   | <b>4,708</b>     | <b>(39,695)</b>  |
| <b>Financing</b>                                    |                  |                  |
| Proceeds from share issuances, net                  | 299,336          | 324,736          |
| <b>Net change in cash during the year</b>           | <b>26,937</b>    | <b>1,471</b>     |
| <b>Cash, beginning of year</b>                      | <b>17,744</b>    | <b>16,273</b>    |
| <b>Cash, end of year</b>                            | <b>\$ 44,681</b> | <b>\$ 17,744</b> |

**Montana Gold Mining Company Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in United States Dollars)  
**December 31, 2014 and 2013**

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

Montana Gold Mining Company Inc. ("the Company" or "Montana") was incorporated under the Ontario Business Corporations Act on December 21, 2000. The Company has three wholly-owned subsidiary corporations, Montana Gold Subsidiary Corporation, a United States corporation, incorporated under the laws of the State of Montana on August 28, 2012, Celerity Mineral Corporation, a Canadian corporation, incorporated under the Canada Business Corporations Act on April 25, 2012 and Celerity Subsidiary Corporation, a United States corporation, incorporated under the laws of the State of Montana on August 28, 2012.

The Company is engaged in the business of locating and exploring mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The head office and principal address of the Company is 380 Wellington Street, 6th Floor, London City Centre, Tower B, London, Ontario, N6A 5B5.

While these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business, there are material uncertainties related to adverse conditions and events that cast significant doubt on the Company's ability to continue as a going concern.

During the year ended December 31, 2014 the Company incurred a net loss of \$348,619 (2013 - \$100,446) and, as of that date, the Company had accumulated a deficit of \$9,872,343 (2013 - \$9,523,724), a working capital deficiency of \$407,017 (2013 - \$514,247) and negative cash flows from operations of \$277,107 (2013 - \$283,570). These factors create material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

As is common with exploration companies, the Company is dependent upon obtaining necessary equity financing from time to time to finance its on-going and planned exploration activities and to cover administrative costs. Subsequent to December 31, 2014, the Company received proceeds of \$61,705 CDN (\$50,380 USD) for units to be issued (Note 17).

Recovery of the carrying value of the mining claims and the related deferred exploration expenditures are dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to secure and maintain title and beneficial interest in the properties, entering agreements with others to explore and develop the properties and upon future profitable production or proceeds from disposition of such properties.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments would be material.

**Montana Gold Mining Company Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in United States Dollars)  
**December 31, 2014 and 2013**

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance**

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

The consolidated financial statements of the Company were approved by the Board of Directors on April 29, 2015.

A summary of the Company's significant accounting policies under IFRS are presented below. These policies have been consistently applied.

**Basis of Measurement**

The consolidated financial statements are prepared on the historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements are presented in United States dollars, which is also the Company's functional currency.

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The accompanying consolidated financial statements include all adjustments that are, in the opinion of management, necessary for a fair presentation.

Information regarding significant areas of estimation, uncertainty and critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to measurement of the recoverable amounts of mining claims and deferred exploration expenditures, the amount accrued for restoration liabilities, the valuation of stock options and warrants issued, valuation of warrants extended and provisions for legal claims.

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Celerity Mineral Corporation (Canada), Celerity Subsidiary Corporation (United States) and Montana Gold Subsidiary Corporation (United States). The functional currency and presentation currency of each entity is the United States dollar. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All transactions and balances between the Company and its subsidiaries are eliminated on consolidation.



**Montana Gold Mining Company Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in United States Dollars)  
**December 31, 2014 and 2013**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Financial Instruments**

The Company recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method.

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

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as other financial liabilities, and are subsequently measured at amortized cost using the effective interest rate method.

The Company's financial assets include cash and reclamation bonds. The Company's financial liabilities include accounts payable and accrued liabilities and foreign currency warrants. Classification of these financial instruments is as follows

| <u>Financial Instrument</u>              | <u>Classification</u>       |
|--|-----------------------------|
| Cash                                     | FVTPL                       |
| Reclamations bonds                       | Loans and receivables       |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Foreign currency warrants                | FVTPL                       |

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are derecognized when the Company's rights to cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of loss.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Financial Instruments (Cont'd)**

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company's financial instruments measured at fair value on the statement of financial position consist of cash and foreign currency warrants. Cash is measured at level 1 of the fair value hierarchy while foreign currency warrants are measured at level 2 of the fair value hierarchy.

**Mining Claims and Deferred Exploration Expenditures**

Mining claims and deferred exploration expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and include costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling, and; evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Mining claims and deferred exploration expenditures, including costs of acquiring licenses, are capitalized as mining claims and deferred exploration expenditures on an "area of interest basis" which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proven to exist and, in most cases, comprises a single mine or deposit.

Pre-exploration costs are expensed unless it is considered probable that they will generate future economic benefits. The Company expenses all costs incurred prior to obtaining legal rights to a mineral property.

Mining claims and deferred exploration expenditure assets are recognized if the rights to the project are current and either (1) the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale, or (2) active and significant operations in, or in relation to, the project are continuing.

Deferred exploration and evaluation expenditures are initially capitalized as intangible deferred exploration and evaluation assets. Such deferred exploration expenditures may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, materials and fuels used, rentals and payments made to contractors and consultants. To the extent that a tangible asset is consumed in developing an intangible deferred exploration expenditure asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Mining Claims and Deferred Exploration Expenditures (Cont'd)**

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, deferred exploration expenditure assets attributable to that project are first tested for impairment and then reclassified to Mine Property and Development Projects. Currently, the Company does not hold any assets classified as Mine Property and Development Projects.

**Impairment**

The Company's mining claims and deferred exploration expenditures are reviewed for an indication of impairment at each statement of financial position reporting date. If an indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the (1) asset's fair value less costs of disposal and (2) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates, or is expected to generate, cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

**Foreign Currency Translation**

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the consolidated statement of financial position date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in the consolidated statement of loss and comprehensive loss.

Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

**Income Taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

**Montana Gold Mining Company Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in United States Dollars)  
**December 31, 2014 and 2013**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Income Taxes (Cont'd)**

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Share Capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

**Stock-based Compensation Transactions**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of stock options issued for employee services is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. At each reporting date, the Company revises its estimates of the number of options that are expected to vest, based on the non-marketing vesting conditions. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued for non-employee services and some or all of the goods or services received by the entity as consideration cannot be reliably measured, they are measured at the fair value of the share-based payment. Otherwise, the stock-based compensation is measured at the fair value of goods or services received.

**Income/Loss Per Share**

The Company presents basic and diluted income/loss per share data for its common shares. Basic income/loss per share is calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares. Diluted income per share does not adjust the loss attributed to the common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Restoration Liabilities**

The Company recognizes the fair value of restoration liabilities related to statutory, contractual or legal obligations associated with the retirement of mining claims in the year in which it is incurred when a reasonable estimate of fair value can be made, in which case the carrying amount of the related mining claim is increased by the same amount as the net present value of the restoration liability. Discount rates using a pre tax rate that reflects the time value of money are used to calculate the net present value. The Company's estimates of such costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures and changes in the net present value.

**Related Party Transactions**

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

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reasonable estimate can be made of the amount of the obligation. Provisions for legal claims, onerous leases and other onerous commitments are recognized at the best estimates of the expenditures required to settle the Company's liability.

Provisions are measured at the present value of the expenditures required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

**Warrants Denominated in a Foreign Currency**

Warrants denominated in a foreign currency different from the functional currency of the Company, called foreign currency warrants in these consolidated financial statements, meet the definition of a derivative financial liability and are fair valued at each statement of financial position date using the Black-Scholes pricing model, with changes in the fair value recognized in income or loss.

Fair values of warrants are determined based on estimated fair values at the valuation date using the Black-Scholes option pricing model.

Warrants that are issued as compensation are not subsequently revalued.

**Montana Gold Mining Company Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in United States Dollars)  
**December 31, 2014 and 2013**

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**3. FUTURE ACCOUNTING PRONOUNCEMENT**

The accounting pronouncement detailed in this note has been issued but is not yet effective. The Company is currently evaluating the impact, if any, that this standard might have on its consolidated financial statements.

- a) IFRS 9, Financial Instruments ("IFRS 9") was issued in final form in July 2014 by the IASB and will replace IAS 39, Financial Instruments – Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early application is permitted.

**4. MINING CLAIMS AND DEFERRED EXPLORATION COSTS**

|   | December 31,<br>2013 | Additions        | Write-offs  | December 31,<br>2014 |
|---|----------------------|------------------|-------------|----------------------|
| Silver Bell St. Lawrence Claims,<br>MT <sup>(a)</sup> | \$ 424,323           | \$ 4,123         | \$ -        | \$ 428,446           |
| Golden Trail Claims, NV <sup>(b)</sup>                | 66,176               | 16,169           | -           | 82,345               |
|   | <b>\$ 490,499</b>    | <b>\$ 20,292</b> | <b>\$ -</b> | <b>\$ 510,791</b>    |
|   | December 31,<br>2012 | Additions        | Write-offs  | December 31,<br>2013 |
| Silver Bell St. Lawrence Claims,<br>MT <sup>(a)</sup> | \$ 416,786           | \$ 7,537         | \$ -        | \$ 424,323           |
| Golden Trail Claims, NV <sup>(b)</sup>                | 34,018               | 32,158           | -           | 66,176               |
|   | <b>\$ 450,804</b>    | <b>\$ 39,695</b> | <b>\$ -</b> | <b>\$ 490,499</b>    |

(a) Silver Bell St. Lawrence

On September 1, 2011 the Company entered into an agreement to acquire a 100% working interest in the Silver Bell St. Lawrence ("SBSL") property consisting of 10 (2013 - 10) mining claims by paying \$85,000 on signing and \$85,000 by March 1, 2012, for total consideration of \$170,000, by issuing 200,000 common shares of the Company and granting a 2% Net Smelter Royalty to the arms-length vendor. The Company paid \$85,000 on September 9, 2011 and issued 200,000 common shares on September 15, 2011. The Company paid the last \$85,000 on February 24, 2012. These claims have not yet been transferred to the Company and are being held in trust by the vendor. Currently management is working on transferring the title of these claims to Company.

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**4. MINING CLAIMS AND DEFERRED EXPLORATION COSTS (Cont'd)**

(a) Silver Bell St. Lawrence (Cont'd)

The Company holds 100% interest in 15 (2013 - 15) mining claims adjacent to the northern and eastern boundaries of the SBSL property. These mining claims are called the Roar claims and bring the total size of the SBSL property to approximately 394 acres.

On June 11, 2012, the Company completed an NI43-101 Report on the SBSL Property.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of \$155 (2013 - \$140) per claim.

(b) Golden Trail

As at December 31, 2014, the Company holds 100% interest in 16 (2013 - 16) contiguous unpatented mining claims in the Elko County region of Nevada totaling approximately 320 acres.

On May 16, 2012, the Company completed an NI43-101 Report on the Golden Trail Property.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of \$155 (2013 - \$140) per claim.

**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The following is a breakdown of the amounts included in accounts payable:

|                              | <b>2014</b>       | <b>2013</b> |
|------------------------------|-------------------|-------------|
| Trade payables               | <b>\$ 47,028</b>  | \$ 55,487   |
| Accrued liabilities:         |                   |             |
| Management and director fees | <b>400,539</b>    | 442,959     |
| Audit and accounting         | <b>31,760</b>     | 39,410      |
|                              | <b>\$ 479,327</b> | \$ 537,856  |

**6. RESTORATION LIABILITIES**

(i) As at December 31, 2014, management estimated site restoration costs relating to exploration work completed to date on the Rimrock property, a former property of the Company, to be \$Nil (2013 - \$22,000). These costs are estimated by management and approved by the Nevada State Office of the Bureau of Land Management ("BLM"). The Company is required to issue reclamation bonds to cover these estimated restoration costs. The reclamation bonds issued relating to this property are \$Nil (2013 - \$25,000). The reclamation bonds will be returned to the Company upon the BLM being satisfied with the site restoration work performed.

During the year ended December 31, 2014, the Company received cash proceeds of \$25,000 relating to the release of the reclamation bonds on the Rimrock property. The restoration liability previously accrued in the amount of \$22,000 was reversed in the consolidated statements of loss and comprehensive loss.

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**6. RESTORATION LIABILITIES (Cont'd)**

- (ii) As at December 31, 2014, a reclamation bond in the amount of \$15,271 (2013 - \$15,271) is being held by the BLM on the Golden Trail property. The Company has completed the site restoration work and management estimates that no further site restoration costs need to be incurred on the Golden Trail property. The Company may be liable for additional amounts if the BLM determines that the site restoration work was deficient and the amount of the bond is not sufficient to cover the cost of the additional work required to fully return the site to its original condition.

**7. CAPITAL STOCK**

Authorized  
Unlimited common shares  
Issued and outstanding - common shares

|   | <b>Number<br/>of Shares</b> | <b>Value</b>        |
|---|-----------------------------|---------------------|
| <b>Balance, December 31, 2012</b>           | <b>30,631,007</b>           | <b>\$ 7,652,666</b> |
| Units issued for cash <sup>(a)</sup>        | 6,650,000                   | 324,736             |
| Allocated to warrants <sup>(a)</sup>        | -                           | (147,239)           |
| <b>Balance, December 31, 2013</b>           | <b>37,281,007</b>           | <b>\$ 7,830,163</b> |
| Units issued for cash <sup>(b)</sup>        | 6,610,765                   | 299,336             |
| Shares issued to settle debt <sup>(b)</sup> | 2,584,613                   | 153,603             |
| Allocated to warrants <sup>(b)</sup>        | -                           | (147,369)           |
| <b>Balance, December 31, 2014</b>           | <b>46,476,385</b>           | <b>\$ 8,135,733</b> |

- (a) (i) On February 20, 2013, the Company issued 2,000,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$100,000 CDN (\$99,797 USD). Each unit consists of one common share and one share purchase warrant exercisable for 2 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to February 20, 2014 and then at a price of \$0.20 CDN up to February 20, 2015.

The fair value of these warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

|  |                     |
|--|---------------------|
| Share price                                      | \$0.03 CDN          |
| Expected dividend yield                          | Nil                 |
| Exercise price                                   | \$0.10 - \$0.20 CDN |
| Risk free interest rate                          | 1.02%               |
| Expected life                                    | 2.0 years           |
| Expected volatility (based on historical prices) | 147%                |

The Company determined the amount relating to the warrants in the unit issuance to be \$11,500.



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**7. CAPITAL STOCK (Cont'd)**

- (a) (ii) On May 14, 2013, the Company issued 1,000,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$50,000 CDN (\$43,889 USD). Each unit consists of one common share and one share purchase warrant exercisable for 2 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to May 14, 2014 and then at a price of \$0.20 CDN up to May 14, 2015.

The fair value of these warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

|  |                     |
|--|---------------------|
| Share price                                      | \$0.02 CDN          |
| Expected dividend yield                          | Nil                 |
| Exercise price                                   | \$0.10 - \$0.20 CDN |
| Risk free interest rate                          | 1.07%               |
| Expected life                                    | 2.0 years           |
| Expected volatility (based on historical prices) | 154%                |

The Company determined the amount relating to the warrants in the unit issuance to be \$3,593.

- (a) (iii) On December 3, 2013, the Company issued 3,650,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$182,500 CDN (\$181,050 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to December 3, 2016.

The fair value of these warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

|  |            |
|--|------------|
| Share price                                      | \$0.04 CDN |
| Expected dividend yield                          | Nil        |
| Exercise price                                   | \$0.10 CDN |
| Risk free interest rate                          | 1.06%      |
| Expected life                                    | 3.0 years  |
| Expected volatility (based on historical prices) | 260%       |

The Company determined the amount relating to the warrants in the unit issuance to be \$132,146.

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**7. CAPITAL STOCK (Cont'd)**

- (b) (i) On March 3, 2014, the Company issued 2,000,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$100,000 CDN (\$90,065 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to March 3, 2017.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

|  |             |
|--|-------------|
| Share price                                      | \$0.035 CDN |
| Expected dividend yield                          | Nil         |
| Exercise price                                   | \$0.10 CDN  |
| Risk free interest rate                          | 1.02%       |
| Expected life                                    | 3.0 years   |
| Expected volatility (based on historical prices) | 149%        |

The Company determined the amount relating to the warrants in the unit issuance to be \$43,321.

- (b) (ii) On June 4, 2014, the Company issued 2,300,505 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$115,025 CDN (\$105,238 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to June 4, 2017.

80,000 of these common shares issued were subscribed for by an officer and a director.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

|  |             |
|--|-------------|
| Share price                                      | \$0.070 CDN |
| Expected dividend yield                          | Nil         |
| Exercise price                                   | \$0.10 CDN  |
| Risk free interest rate                          | 1.06%       |
| Expected life                                    | 3.0 years   |
| Expected volatility (based on historical prices) | 155%        |

The Company determined the amount relating to the warrants in the unit issuance to be \$53,534.

- (b) (iii) On June 4, 2014, the Company issued 2,584,613 common shares with an ascribed value of \$0.065 CDN per shares to settle debt owing of \$168,000 CDN (\$153,603 USD) to officers and directors (2,307,690 common shares) and a consultant (276,923 common shares).

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**7. CAPITAL STOCK (Cont'd)**

- (b) (iv) On June 28, 2014, the Company issued 1,310,260 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$65,513 CDN (\$60,977 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to June 28, 2017.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

|  |             |
|--|-------------|
| Share price                                      | \$0.075 CDN |
| Expected dividend yield                          | Nil         |
| Exercise price                                   | \$0.10 CDN  |
| Risk free interest rate                          | 1.09%       |
| Expected life                                    | 3.0 years   |
| Expected volatility (based on historical prices) | 152%        |

The Company determined the amount relating to the warrants in the unit issuance to be \$30,757.

- (b) (v) On December 30, 2014, the Company issued 1,000,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$50,000 CDN (\$43,056 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to December 30, 2017.

These common shares issued were subscribed for by directors.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

|  |             |
|--|-------------|
| Share price                                      | \$0.040 CDN |
| Expected dividend yield                          | Nil         |
| Exercise price                                   | \$0.10 CDN  |
| Risk free interest rate                          | 1.00%       |
| Expected life                                    | 3.0 years   |
| Expected volatility (based on historical prices) | 123%        |

The Company determined the amount relating to the warrants in the unit issuance to be \$19,757.

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**8. STOCK OPTIONS AND WARRANTS**

**(a) Stock Options**

The Company has a Stock Option Plan (the "Plan") to provide options for the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 10% of the common shares issued and outstanding (on a non-diluted basis) at any time. The exercise price of options granted under the Stock Option Plan will be determined by the directors, but will be at least equal to the closing trading price for the common shares for the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Directors. The term of any option granted shall not exceed five years. Except as otherwise provided elsewhere in the Stock Option Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. The Company will not provide financial assistance to any optionee in connection with the exercise of options.

|                                | 2014                    |  | 2013                    |  |
|--------------------------------|-------------------------|--|-------------------------|--|
|                                | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price (CDN) | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price (CDN) |
| Outstanding, beginning of year | 2,600,000               | \$0.10   | 2,600,000               | \$0.10   |
| Granted                        | 1,900,000               | \$0.07   | -                       | \$-  |
| Outstanding, end of year       | 4,500,000               | \$0.09   | 2,600,000               | \$0.10   |
| Exercisable                    | 4,470,000               | \$0.09   | 2,600,000               | \$0.10   |

The Company had the following stock options outstanding at December 31, 2014:

| Number of Options | Exercise Price | Expiry Date       |
|-------------------|----------------|-------------------|
| 2,600,000         | CDN \$0.10     | May 1, 2017       |
| 150,000           | CDN \$0.05     | December 24, 2015 |
| 1,150,000         | CDN \$0.065    | May 29, 2019      |
| 500,000           | CDN \$0.08     | July 2, 2019      |
| 100,000           | CDN \$0.05     | October 17, 2015  |
| <b>4,500,000</b>  |                |                   |

The above options were not included in the computation of diluted net loss per share as they are anti-dilutive.

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**8. STOCK OPTIONS AND WARRANTS (Cont'd)**

**(a) Stock Options (Cont'd)**

- (i) On March 25, 2014, the Company granted 150,000 stock options to a consultant. Each option entitles the holder to purchase one common share at \$0.05 CDN per share at any time on or before December 24, 2015. 30,000 options vest upon grant, 30,000 options vest June 25, 2014, 30,000 options vest September 25, 2014, 30,000 options vest December 25, 2014 and 30,000 options vest March 25, 2015.

In the absence of a reliable measurement of the services received, the transaction has been measured at the fair value of the stock options issued. The fair value of these stock options of \$4,356 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

|  |            |
|--|------------|
| Stock price                                      | \$0.05 CDN |
| Expected dividend yield                          | Nil        |
| Exercise price                                   | \$0.05 CDN |
| Risk-free interest rate                          | 1.07%      |
| Expected life                                    | 1.75 years |
| Expected volatility (based on historical prices) | 140%       |

- (ii) On May 29, 2014, the Company granted 1,150,000 stock options to directors and officers and a consultant. Each option entitles the holder to purchase one common share at \$0.065 CDN per share at any time on or before May 29, 2019.

In the absence of a reliable measurement of the services received from the consultant, the transaction has been measured at the fair value of the stock options issued.

The fair value of these stock options of \$63,081 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

|  |             |
|--|-------------|
| Stock price                                      | \$0.06 CDN  |
| Expected dividend yield                          | Nil         |
| Exercise price                                   | \$0.065 CDN |
| Risk-free interest rate                          | 1.33%       |
| Expected life                                    | 5.0 years   |
| Expected volatility (based on historical prices) | 233%        |

- (iii) On July 2, 2014, the Company granted 500,000 stock options to directors and officers. Each option entitles the holder to purchase one common share at \$0.080 CDN per share at any time on or before July 2, 2019.

The fair value of these stock options of \$34,836 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

|  |             |
|--|-------------|
| Stock price                                      | \$0.075 CDN |
| Expected dividend yield                          | Nil         |
| Exercise price                                   | \$0.080 CDN |
| Risk-free interest rate                          | 1.50%       |
| Expected life                                    | 5.0 years   |
| Expected volatility (based on historical prices) | 233%        |

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**8. STOCK OPTIONS AND WARRANTS (Cont'd)**

**(a) Stock Options (Cont'd)**

- (iv) On October 17, 2014, the Company granted 100,000 stock options to a consultant. Each option entitles the holder to purchase one common share at \$0.050 CDN per share at any time on or before October 17, 2015.

In the absence of a reliable measurement of the services received from the consultant, the transaction has been measured at the fair value of the stock options issued.

The fair value of these stock options of \$1,983 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

|  |             |
|--|-------------|
| Stock price                                      | \$0.050 CDN |
| Expected dividend yield                          | Nil         |
| Exercise price                                   | \$0.050 CDN |
| Risk-free interest rate                          | 0.99%       |
| Expected life                                    | 1.0 years   |
| Expected volatility (based on historical prices) | 118%        |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

**(b) Warrants**

The following summarizes the change in foreign currency warrants:

|   | <b>2014</b>       | <b>2013</b>       |
|---|-------------------|-------------------|
| Balance, beginning of year  | \$ 185,472        | \$ 18,500         |
| Fair value of warrants issued - February 20, 2013 (Note 7(a)(i))  | -                 | 11,500            |
| Fair value of warrants issued - May 14, 2013 (Note 7(a)(ii))      | -                 | 3,593             |
| Fair value of warrants issued - December 3, 2013 (Note 7(a)(iii)) | -                 | 132,146           |
| Fair value of warrants extended (Note 8(b)(i) and (ii))           | -                 | 95,353            |
| Fair value of warrants issued - March 3, 2014 (Note 7(b)(i))      | <b>43,321</b>     | -                 |
| Fair value of warrants issued - June 4, 2014 (Note 7(b)(ii))      | <b>53,534</b>     | -                 |
| Fair value of warrants issued - June 28, 2014 (Note 7(b)(iv))     | <b>30,757</b>     | -                 |
| Fair value of warrants issued - December 30, 2014 (Note 7(b)(v))  | <b>19,757</b>     | -                 |
| Fair value adjustment (Note 8(b)(iii))                            | <b>(84,055)</b>   | (75,620)          |
| Balance, end of year  | <b>\$ 248,787</b> | <b>\$ 185,472</b> |

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**8. STOCK OPTIONS AND WARRANTS (Cont'd)**

**(b) Warrants (Cont'd)**

- (i) On May 14, 2013, the Company modified the expiry dates and exercise prices of the following outstanding warrants:
- 2,800,000 warrants originally exercisable at \$0.30 CDN until September 12, 2013 are now exercisable at a price of \$0.10 CDN until January 24, 2014 and then at a price of \$0.20 CDN until January 24, 2016;
  - 1,400,000 warrants originally exercisable at \$0.20 until February 8, 2014 are now exercisable at a price of \$0.10 CDN until February 8, 2014 and then at a price of \$0.20 CDN until February 8, 2016;
  - 2,000,000 warrants originally exercisable at \$0.20 until April 24, 2014 are now exercisable at a price of \$0.10 CDN until April 24, 2014 and then at a price of \$0.20 CDN until April 24, 2016; and
  - 3,250,000 warrants originally exercisable at \$0.10 until June 19, 2013 and then at \$0.20 until June 19, 2014 are now exercisable at a price of \$0.10 CDN until June 19, 2014 and then at a price of \$0.20 CDN until June 19, 2016.

The incremental fair value of these warrants extended was estimated at \$83,260 (\$84,494 CDN) using the Black Scholes pricing model with the following weighted average assumptions:

|   |                     |
|---|---------------------|
| Share price   | \$0.020 CDN         |
| Expected dividend yield                                     | Nil                 |
| Exercise price (original)                                   | \$0.10 - \$0.30 CDN |
| Exercise price (extended)                                   | \$0.10 - \$0.20 CDN |
| Risk free interest rate                                     | 1.07%               |
| Expected life (original)                                    | 0.786 years         |
| Expected life (extended)                                    | 2.896 years         |
| Expected volatility (original) (based on historical prices) | 163%                |
| Expected volatility (extended) (based on historical prices) | 331%                |

As this is a capital transaction, the incremental fair value was recorded to foreign currency warrants with an offsetting charge to deficit.

- (ii) On December 5, 2013, the Company modified the expiry dates and exercise prices of the following outstanding warrants:
- 2,000,000 warrants originally exercisable at \$0.10 CDN until February 20, 2014 and then at \$0.20 until February 20, 2015 are now exercisable at a price of \$0.10 CDN until February 20, 2014 and then at a price of \$0.20 CDN until February 20, 2016; and
  - 1,000,000 warrants originally exercisable at \$0.10 until May 14, 2014 and then at \$0.20 until May 14, 2015 are now exercisable at a price of \$0.10 CDN until May 14, 2014 and then at a price of \$0.20 CDN until May 14, 2016.

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**8. STOCK OPTIONS AND WARRANTS (Cont'd)**

**(b) Warrants (Cont'd)**

(ii) (Cont'd)

The incremental fair value of these warrants extended was estimated at \$12,093 (\$12,865 CDN) using the Black Scholes pricing model with the following weighted average assumptions:

|   |                     |
|---|---------------------|
| Share price   | \$0.035 CDN         |
| Expected dividend yield                                     | Nil                 |
| Exercise price (original)                                   | \$0.10 - \$0.20 CDN |
| Exercise price (extended)                                   | \$0.10 - \$0.20 CDN |
| Risk free interest rate                                     | 1.06%               |
| Expected life (original)                                    | 1.287 years         |
| Expected life (extended)                                    | 2.288 years         |
| Expected volatility (original) (based on historical prices) | 153%                |
| Expected volatility (extended) (based on historical prices) | 154%                |

As this is a capital transaction, the incremental fair value was recorded to foreign currency warrants with an offsetting charge to deficit.

(iii) At December 31, 2013, the fair value of the 16,100,000 warrants outstanding was estimated at \$185,472 using the Black-Scholes pricing model with the following weighted average assumptions:

|  |                     |
|--|---------------------|
| Share price                                      | \$0.04 CDN          |
| Expected dividend yield                          | Nil                 |
| Exercise price                                   | \$0.10 - \$0.20 CDN |
| Risk-free interest rate                          | 1.10%               |
| Expected life                                    | 2.405 years         |
| Expected volatility (based on historical prices) | 153%                |

At December 31, 2014, the fair value of the 22,710,765 warrants outstanding was estimated at \$248,786 using the Black-Scholes pricing model with the following weighted average assumptions:

|  |                     |
|--|---------------------|
| Share price                                      | \$0.04 CDN          |
| Expected dividend yield                          | Nil                 |
| Exercise price                                   | \$0.10 - \$0.20 CDN |
| Risk-free interest rate                          | 1.00%               |
| Expected life                                    | 1.709 years         |
| Expected volatility (based on historical prices) | 125%                |

At December 31, 2014, a gain on revaluation of foreign currency warrants of \$84,055 (2013 \$75,620) was recognized in the consolidated statement of loss and comprehensive loss.



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**8. STOCK OPTIONS AND WARRANTS (Cont'd)**

**(b) Warrants (Cont'd)**

(iii) (Cont'd)

| <b>Number of Warrants</b> | <b>Exercise Price (CDN)</b> | <b>Expiry Date</b> |
|---------------------------|-----------------------------|--------------------|
| 2,800,000                 | \$ 0.20                     | January 24, 2016   |
| 1,400,000                 | \$ 0.20                     | February 8, 2016   |
| 2,000,000                 | \$ 0.20                     | April 24, 2016     |
| 3,250,000                 | \$ 0.20                     | June 19, 2016      |
| 2,000,000                 | \$ 0.20                     | February 20, 2016  |
| 1,000,000                 | \$ 0.20                     | May 14, 2016       |
| 3,650,000                 | \$ 0.10                     | December 3, 2016   |
| 2,000,000                 | \$0.10                      | March 3, 2017      |
| 2,300,505                 | \$0.10                      | June 4, 2017       |
| 1,310,260                 | \$0.10                      | June 28, 2017      |
| 1,000,000                 | \$0.10                      | December 30, 2017  |
| <b>22,710,765</b>         |                             |                    |

**9. LOSS PER SHARE**

The calculation of basic and diluted loss per share for the year ended December 31, 2014 was based on the loss attributable to common shareholders of \$348,619 (2013 - \$100,446) and the weighted average number of common shares outstanding of 42,447,523 (2013 – 33,282,651).

Diluted loss per share did not include the effect of 4,500,000 stock options and 22,710,765 warrants outstanding as they are anti-dilutive.

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**10. INCOME TAXES**

**(a) Income Tax Expense**

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in these consolidated financial statements:

|  | 2014         | 2013         |
|--|--------------|--------------|
| Loss before income taxes                                     | \$ (348,619) | \$ (100,446) |
| Statutory rate   | 26.50 %      | 26.50 %      |
| Expected income tax recovery                                 | \$ (92,384)  | \$ (26,618)  |
| Stock-based compensation                                     | 27,628       | -            |
| Amounts not deductible for tax                               | (22,023)     | (19,905)     |
| Impact on foreign exchange and foreign tax rate differential | 38,779       | 40,050       |
| Adjustment to CEE and CDE pool balances                      | -            | 2,186        |
| Expiry of non-capital losses                                 | -            | 1,992,186    |
| Net-capital loss incurred                                    | -            | (633,899)    |
| Change in deferred tax assets not recognized                 | 48,000       | (1,354,000)  |
| Income tax expense   | \$ -         | \$ -         |

**(b) Deferred Income Taxes**

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

|  | 2014        | 2013        |
|--|-------------|-------------|
| Deferred tax assets (liabilities)            |             |             |
| Non-capital loss carry forwards              | \$ 605,000  | \$ 555,000  |
| Net-capital losses                           | 634,000     | 634,000     |
| Mining claims and deferred exploration costs | 25,000      | 25,000      |
| Share issue costs                            | 3,000       | 5,000       |
|  | 1,267,000   | 1,219,000   |
| Less: Deferred tax assets not recognized     | (1,267,000) | (1,219,000) |
| Net deferred income tax asset                | \$ -        | \$ -        |

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**10. INCOME TAXES (Cont'd)**

**(c) Tax Losses**

The Company has non-capital losses of approximately \$2,284,700 available in Canada to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

|      |    |                     |
|------|----|---------------------|
| 2028 | \$ | 93,200              |
| 2029 |    | 111,400             |
| 2030 |    | 284,200             |
| 2031 |    | 480,700             |
| 2032 |    | 438,300             |
| 2033 |    | 463,200             |
| 2034 |    | 413,700             |
|      |    | <b>\$ 2,284,700</b> |

The Company also has capital losses of \$4,784,140 available to offset future taxable capital gains, these losses do not expire.

The potential tax benefit relating to these tax losses has not been reflected in these consolidated financial statements.

**11. DISSOLUTION OF SUBSIDIARY**

In 2013, the Company's wholly-owned subsidiary in the United States, Gold Reef of Nevada, Inc. ("GRN"), had its charter in State of Nevada forfeited in 2009 which gave the creditors of GRN four years to make a claim. No claims were made in the period. Accordingly, the accounts payable of GRN in the amount of \$96,909 were written off during the prior year. The assets of GRN in the amounts of \$20,511 were assumed by the Company.

**12. RELATED PARTY TRANSACTIONS**

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

Remuneration of Directors and key management of the Company was as follows:

|  | <b>2014</b>       | <b>2013</b>       |
|--|-------------------|-------------------|
| Stock-based compensation (Note 8) <sup>(a)</sup> | <b>\$ 75,976</b>  | <b>\$ -</b>       |
| Management and director fees <sup>(b)</sup>      | <b>304,513</b>    | <b>380,067</b>    |
|  | <b>\$ 380,489</b> | <b>\$ 380,067</b> |

(a) Fair market value of stock options issued to officers and directors.

(b) Included in office and administrative costs in the consolidated statements of loss and comprehensive loss.

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

Other related party balances are listed below:

- (a) Included in accounts payable and accrued liabilities is \$400,539 (2013 - \$442,959) of amounts owing to directors of the Company for management and director fees.
- (b) During the year ended December 31, 2014, the Company issued 2,309,690 common shares to officers and directors to settle management fees owing of \$168,000 CDN (\$153,603 USD) (Note 7 (b)(iii)).
- (c) During the year ended December 31, 2013, the Company reversed \$239,794 of management fees owing to three directors from December 31, 2012 and director fees owing to four directors from December 31, 2011, which were included in accounts payable and accrued liabilities.
- (d) During the year ended December 31, 2014, the Company reversed \$57,108 of director fees owing to four directors from December 31, 2012, which were included in accounts payable and accrued liabilities.

**13. CAPITAL RISK MANAGEMENT**

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2014.

**14. FINANCIAL RISK MANAGEMENT**

The Company is exposed to a variety of financial risks by virtue of its activities. In particular market risk (composed of currency risk), liquidity risk, fair value risk and credit risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

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**14. FINANCIAL RISK MANAGEMENT (Cont'd)**

**(a) Market Risk**

(i) Currency risk

The Company operates internationally and is exposed to foreign exchange risk from the Canadian Dollar. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

As at December 31, 2014 the Company is exposed to currency risk through the following financial assets and liabilities denominated in Canadian dollars:

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| Cash                                     | \$ 50,471   | \$ 4,355    |
| Accounts payable and accrued liabilities | \$ 545,537  | \$ 549,556  |

The above balances were translated into US dollars at the year-end rate of \$0.8620 (2013 - \$0.9402) Canadian dollars to every US dollar.

Based on the above net exposures as at December 31, 2014, assuming that all other variables remain constant, a +/- 5% change in the Canadian dollar against the United States dollar would result in an increase/decrease in net loss of approximately \$21,000.

**(b) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at December 31, 2014, the Company has current liabilities of \$479,327 (2013 - \$537,856) due within 12 months and has cash of \$44,681 (2013 - \$17,744) to meet its current obligations. As a result the Company has liquidity risk and is dependent on raising additional capital to fund operations.

**(c) Fair Value Risk**

The carrying values of reclamation bonds, accounts payable and accrued liabilities and approximate fair values due to the relatively short term maturities of these instruments.

**(d) Credit Risk**

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash. The Company reduces its credit risk by maintaining its primary bank accounts at large financial institutions.

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**15. COMMITMENTS**

The Company is committed under lease agreements to the payment of amounts totaling \$3,540 in 2015.

The Company is also required to make payments to the BLM to keep mining claims in good standing as noted in Note 4.

**16. LITIGATION**

On February 15, 2010, the Company was named along with former directors of the Company and served with a claim in The District Court, 150th Judicial District, Bexar County, Texas. This lawsuit was subsequently removed to the U.S. District Court for the Western District of Texas, San Antonio Division. The Plaintiff alleged several past directors of the Company have used trade secrets or confidential information belonging to the Plaintiff for the Company's benefit in violation of laws protecting this type of information. The Plaintiff claimed monetary damages against all of the named Defendants, which include the Company, of \$30,000,000.

In February 2012, the Court dismissed all claims against all of the named Defendants, including the Company. In early March, 2012, the Plaintiff filed an appeal and an appeal hearing was held in December, 2012. On April 17, 2013, the United States Court of Appeals for the Fifth Circuit issued its opinion affirming the judgement in the court below in favour of all defendants. On May 1, 2013, the appellants filed a Petition for Rehearing. On May 20, 2013 the Petition for Rehearing was denied. While it is possible the appellants could take further action, the Company has not been informed of such action.

**17. SUBSEQUENT EVENT**

Subsequent to year-end, the Company has received proceeds of \$61,705 CDN (\$50,380 USD) for units to be issued with an ascribed value of \$0.05 CDN per unit. Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN.