

# **BacTech Environmental Corporation**

**Consolidated Financial Statements**  
December 31, 2014 and 2013

# BacTech Environmental Corporation

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*December 31, 2014*

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BacTech Environmental Corporation:

We have audited the accompanying consolidated financial statements of BacTech Environmental Corporation and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity (deficiency) and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 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 BacTech Environmental Corporation and its subsidiary as at December 31, 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

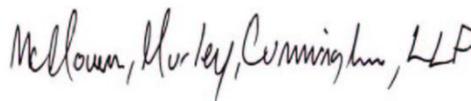
### Other Matters

The consolidated financial statements of BacTech Environmental Corporation for the year ended December 31, 2013, were audited by other auditors who expressed an unmodified opinion on those statements on May 20, 2014. We have audited the adjustment to the 2013 consolidated financial statements related to a change in accounting policy, as described in Note 2. In our opinion, such adjustments, in all material respects, are appropriate and properly applied.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the BacTech Environmental Corporation had continuing losses during the year ended December 31, 2014 and a working capital deficiency as at December 31, 2014. These conditions along with other matters set forth in Note 1 indicate the existence of material uncertainties that may cast significant doubt about the BacTech Environmental Corporation's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants  
Licensed Public Accountants

TORONTO, Canada  
April 28, 2015



**BacTech Environmental Corporation**  
**Consolidated Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian dollars, unless otherwise stated)

	Years ended December 31	
	2014	2013
	\$	\$
<b>Expenses</b>		
Operating and administrative costs <i>(note 18)</i>	<b>466,099</b>	934,825
Finance charges <i>(note 19)</i>	<b>180,622</b>	264,419
Gain on reduction in liabilities	<b>(55,748)</b>	-
Write-down of deferred assessment and evaluation costs <i>(note 7)</i>	<b>1,407,357</b>	-
<b>Loss before income taxes</b>	<b>(1,998,330)</b>	(1,199,244)
<b>Deferred tax recovery <i>(note 17)</i></b>	<b>101,000</b>	-
<b>Net loss and comprehensive loss for the year</b>	<b>(1,897,330)</b>	(1,199,244)
<b>Basic and diluted loss per share <i>(note 16)</i></b>	<b>(0.13)</b>	(0.10)
<b>Weighted average number of common shares outstanding <i>(note 16)</i></b>	<b>14,753,364</b>	9,781,054

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

**BacTech Environmental Corporation**  
**Consolidated Statements of Changes in Equity (Deficiency)**  
(Expressed in Canadian dollars, unless otherwise stated)

	Share Capital \$	Option Reserve \$	Warrant Reserve \$	Deficit \$	Total Equity \$
<b>Balance, December 31, 2012</b>	2,373,300	373,658	799,259	(3,162,964)	383,253
Common shares issued pursuant to private placement ( <i>note 13(ii)</i> )	46,000	-	54,000	-	100,000
Expired warrants	-	-	(35,291)	35,291	-
Stock options granted	-	105,350	-	-	105,350
Share issue costs	(1,500)	-	-	-	(1,500)
Stock options expired	-	(13,733)	-	13,733	-
Value attributed to conversion feature on Bridge Loan ( <i>note 12</i> )	-	23,200	-	-	23,200
Net loss for the year	-	-	-	(1,199,244)	(1,199,244)
<b>Balance, December 31, 2013</b>	2,417,800	488,475	817,968	(4,313,184)	(588,941)
Common shares issued pursuant to private placement ( <i>note 13(iii)</i> )	37,628	-	32,372	-	70,000
Expired warrants	-	-	(763,968)	763,968	-
Tax on expired warrants	-	-	-	(101,000)	(101,000)
Stock options expired	-	(67,765)	-	67,765	-
Share for debt conversion ( <i>notes 11 and 12</i> )	1,502,146	(62,230)	-	62,230	1,502,146
Net loss for the year	-	-	-	(1,897,330)	(1,897,330)
<b>Balance, December 31, 2014</b>	3,957,574	358,480	86,372	(5,417,551)	(1,015,125)

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

**BacTech Environmental Corporation**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian dollars, unless otherwise stated)

	Year ended December 31, 2014	Year ended December 31, 2013
	\$	\$
<b>Cash flow from operating activities</b>		
Cash paid to suppliers, employees and consultants	(34,384)	(530,306)
	<b>(34,384)</b>	<b>(530,306)</b>
<b>Cash flow from financing activities</b>		
Proceeds from of bridge loan	-	600,000
Proceeds from issue of common shares, net	70,000	88,500
	<b>70,000</b>	<b>688,500</b>
<b>Cash flow from investing activities</b>		
Deferred development expenditures, net	(46,115)	(556,706)
	<b>(46,115)</b>	<b>(556,706)</b>
<b>Decrease in cash</b>	<b>(10,499)</b>	<b>(398,512)</b>
<b>Cash, beginning of year</b>	<b>11,071</b>	<b>409,583</b>
<b>Cash, end of year</b>	<b>572</b>	<b>11,071</b>

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

## Notes to Consolidated Financial Statements

December 31, 2014 and 2013

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### 1. Nature of Operations and Going Concern

BacTech Environmental Corporation (the "Company" or "BEC") was incorporated by REBgold Corporation ("REBgold" and formerly BacTech Mining Corporation) on October 5, 2010 under the Canada Business Corporations Act. REBgold completed a divisive reorganization by way of a Plan of Arrangement whereby a newly formed subsidiary, the Company, was granted rights and interests in REBgold's existing and proposed tailings remediation projects and an exclusive, perpetual, royalty-free license to use REBgold's proprietary bioleaching technology for reclamation of historic mine tailings. REBgold retained the primary rights to the bioleaching technology. The technology utilizes bacteria to extract precious and base metals and has been traditionally used to treat difficult-to-treat sulphide ores and concentrates. During the year ended December 31, 2013, REBgold amalgamated with Aquila Resources Inc. and is hereinafter referred to as "Aquila".

The business plan for the Company is to apply the bioleaching technology to abatement and reclamation projects to remove the harmful elements such as arsenic and sulphur from the environment, where this can be assisted by a positive cash flow from metal recovery. Examples of metals which can be extracted include gold, silver, cobalt, nickel, copper, uranium and zinc. The Company's head office is located at 20 Eglinton Avenue West, Suite 1302, Toronto, Ontario, M4R 1K8.

The accompanying consolidated financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

The Company has no sources of recurring revenue, has incurred losses amounting to \$6,441,139 since its inception, has a working capital deficit of \$945,252 at December 31, 2014, and is dependent on financings to fund its operations. The ability of the Company to continue as a going concern is dependent upon the continuing financial support of shareholders or other investors, obtaining new financing on commercial terms acceptable to the Company to enable it to monetize its intellectual property assets, and upon attaining profitable operations once such assets can be monetized, all of which outcomes are materially uncertain and which, taken together, cast significant doubt over the ability of the Company to continue as a going concern. These consolidated financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses and the related statement of financial position and statement of loss classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

The Company funded its operations for the year ended December 31, 2014 from existing cash reserves and a private placement for \$70,000 in gross proceeds. The Company does not have sufficient cash reserves to fund its administrative costs and project development initiatives for the coming twelve month period, and to repay its liabilities to trade creditors and debt holders. Management is actively involved in identifying reclamation and abatement ventures amenable to the application of the Company's technology license, and in seeking new equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives. (See note 23)

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**2. Basis of Consolidation and Presentation**

**Statement of Compliance with International Financial Accounting Standards (“IFRS”)**

**Statement of Compliance**

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”) effective December 31, 2014.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 28, 2015.

**Basis of Preparation and Presentation**

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

The consolidated financial statements are presented in Canadian dollars, which is also the Company’s functional currency.

**Basis of Consolidation**

These consolidated financial statements comprise the financial statements of the Company and its subsidiary, BacTech Manitoba Corp. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Company.

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

**3. Significant Accounting Policies**

**Measurement Uncertainty**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods, if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**3. Significant Accounting Policies - continued**

**Measurement Uncertainty – continued**

**Critical Judgements and Estimation Uncertainties**

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- **Assets' carrying values and impairment charges**  
In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Capitalization of deferred assessment and evaluation costs**  
Management has determined that deferred assessment and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 7 for details of deferred assessment and evaluation costs.
- **Impairment of deferred assessment and evaluation costs**  
While assessing whether any indications of impairment exist for deferred assessment and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of assessment and evaluation assets. Internal sources of information include the manner in which assessment and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's deferred assessment and evaluation assets.

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**3. Significant Accounting Policies - continued**

**Measurement Uncertainty – continued**

- Estimation of decommissioning and restoration costs and the timing of expenditure  
The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at their estimated fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.
- Taxes, income taxes and deferred taxes  
The Company is subject to income and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made. Any estimates for value added and withholding taxes have been included in accounts payable and accrued liabilities.
- Share-Based Payments  
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- Contingencies  
Refer to Notes 22.

**Foreign Currency Translation**

The Company's evaluation and development activities occur primarily in an economic environment where the functional currency is the Canadian dollar. Transactions in foreign currencies are translated to the functional currency at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in a currency other than the Canadian dollar are translated into Canadian dollars at the exchange rate as at the end of the reporting period. Non-monetary assets and liabilities are translated at historical exchange rates at the transaction date. Depreciation is translated at historical exchange rates at the transaction date. The calculated exchange gains and losses are included in net loss for the year.

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**3. Significant Accounting Policies - continued**

**Environmental Liability, Contingency, and Other Provisions**

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A legal or constructive obligation to incur restoration, rehabilitation, or environmental costs may arise when environmental disturbance is caused by the exploration, development, or ongoing production of a mineral property interest. Such costs, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against net loss over the economic life of the related asset, through depreciation using either a unit-of-production or the straight-line method, as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2014 and 2013, no such material obligation has been identified.

**Impairment of Assets**

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets and its deferred assessment and evaluation costs to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the reasonable amount that would be obtained from the asset's arms length sale. 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 conditions of the time value of money and the specific asset's risks. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss is recognized in the profit or loss. To test impairment, assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the new estimated net recoverable amount. The new carrying amount will not be greater than the carrying amount that would have existed if no impairment loss had been recognized in prior years. A reversal of an impairment loss is recognized in profit or loss.

**Notes to Consolidated Financial Statements**

December 31, 2014 and 2013

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**3. Significant Accounting Policies - continued**

**Financial Instruments**

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statement of loss and comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statements of loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statements of loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at the end of each reporting period. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets described above.

Financial liabilities

*Other financial liabilities* - This category includes all other financial liabilities, all of which are recognized at amortized cost.

*Compound financial instruments (debenture)* - Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**3. Significant Accounting Policies - continued**

Financial Instruments - continued The Company's financial instruments consist of the following:

<b>Financial assets:</b>	<b>Classification:</b>
Cash	Loans and receivables
Other receivables	Loans and receivables

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<b>Financial liabilities:</b>	<b>Classification:</b>
Accounts payable and accrued liabilities	Other financial liabilities
Payable to Aquila Resources Inc.	Other financial liabilities
Debentures payable	Other financial liabilities
Bridge loan	Other financial liabilities

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**Exploration and Development Activities**

Deferred assessment and evaluation costs include the direct costs related to mineral properties, including costs of acquiring mining properties and deferred exploration and development costs. These costs are capitalized and accumulated on a property by property basis and will be depreciated on the unit of production method based upon estimated proven and probable mineral reserves, or written off if the properties are abandoned or the carrying value is determined to be in excess of possible recoverable amounts. Costs for general exploration prior to obtaining legal rights to explore the subject property are expensed as incurred.

**Government Grants**

Government grants are recognized in the consolidated financial statements in the period where it becomes reasonably certain that the conditions attaching to the grant will be met, and that the grant will be received. Grants relating to income are shown as a deduction in the reported expense. Grants relating to assets are deducted from the carrying amount of the asset.

**Loss per Share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, options, and convertible debentures outstanding that may add to the total number of common shares unless their effect would be anti-dilutive.

**Share Based Payments**

The fair values of employee share option plan issuances are measured at the date of grant of the options using the Black-Scholes pricing model, taking into consideration the terms and conditions upon which the options were granted. The resulting cost, as adjusted for the expected and actual level of vesting of the options, is charged to income over the period in which the options vest. At the end of each reporting period before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**3. Significant Accounting Policies - continued**

**Income Taxes**

Income tax on the net loss for the years presented comprises current and deferred tax. Current income tax expense is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regard to previous periods. Deferred income tax is provided using the asset and 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.

No deferred income tax is recognized for temporary differences arising from the initial recognition of assets or liabilities that affect either accounting nor taxable profit or loss.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted that are expected to be applied to taxable income in the years in which the temporary differences are expected to be recovered or settled.

A deferred income 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. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

**Investment Tax Credits**

The Company claims research and development deductions and related investment tax credits for income tax purposes based on management's interpretation of the applicable legislation under The Canadian Income Tax Act. These claims are subject to review by the Canada Revenue Agency.

The investment tax credits recoverable are comprised of federal and provincial investment tax credit claims with respect to qualifying scientific research and development expenditures incurred by the Company. The benefit to these investment tax credits is accrued when there is reasonable assurance that the credits will be realized. The amount recoverable is deducted from the related deferred assessment and evaluation costs on the consolidated statement of financial position.

**Cash**

Cash comprises cash at bank and in hand, money market deposits and other short term, highly liquid investments with original maturities of three months or less, and bank overdrafts.

**Changes in accounting policies**

During the year ended December 31, 2014, the Company elected to change its accounting policy for the treatment of share-based payments and warrants whereby amounts recorded for expired unexercised share options and warrants are transferred to deficit. The value of outstanding options will be recorded in an option reserve within equity. Previously, the Company's policy was to record such amounts in contributed surplus within equity along with the value of outstanding stock options and outstanding conversion options. This policy has been applied retrospectively. The impact of the change was a decrease to deficit and a decrease to share based payment of \$225,156 at December 31, 2013 and \$176,132 at December 31, 2012.

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**4. Current and Future Changes in Accounting Policies**

**Standards and amendments effective in the current year**

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32 – Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company’s disclosure of its financial instruments.

IAS 36 – Impairments of Assets (“IAS 36”) was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company’s financial statements.

IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company’s financial statements.

IFRIC 21 – Levies (“IFRIC 21”) was issued in May 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company’s financial statements.

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 8 - Operating Segments (“IFRS 8”) was amended to require an entity to disclose the judgments made by management in aggregating segments. IFRS 8 was also amended to clarify that an entity needs to present a reconciliation between the total reporting segment's assets to the entities' total assets if this information is usually provided to the chief operating decision maker. The amendments are effective for annual periods beginning on or after July 1, 2014.

**Notes to Consolidated Financial Statements**

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**4. Current and Future Changes in Accounting Policies - continued**

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 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, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IFRS 11 - Joint Arrangements (“IFRS 11”) was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IFRS 13 – Fair Value Measurement (“IFRS 13”) was amended to clarify that the exception which allows fair value measurements of a group of financial assets and liabilities on a net basis applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32. The amendment is effective for annual periods beginning on or after July 1, 2014.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IAS 24 – Related Party Disclosures (“IAS 24”) was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

IAS 27 – Separate Financial Statements (“IAS 27”) was amended in August 2014 to reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity’s separate financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

**Notes to Consolidated Financial Statements**

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**5. Other Receivables**

Other receivables consist of the following:

	As at <b>December 31</b> <b>2014</b> \$	As at December 31 2013 \$
Sales tax receivable	<b>3,490</b>	32,824
Subscription receivable	-	10,000
Other receivable	<b>20,743</b>	-
Total other receivables	<b>24,233</b>	42,824

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**6. Payable to Aquila Resources Inc.**

	As at <b>December 31</b> <b>2014</b> \$	As at December 31 2013 \$
Debenture payable ( <i>note 11</i> )	<b>69,873</b>	69,873
Net accruals/receivables	<b>(1,378)</b>	3,690
Plan of Arrangement loan	<b>79,963</b>	69,823
	<b>148,458</b>	143,386
Less current portion	<b>78,585</b>	73,513
	<b>69,873</b>	69,873

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The balance is unsecured, non-interest bearing, and has no set terms of repayment except for the debenture payable component (*note 11*).

**Notes to Consolidated Financial Statements**

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**7. Deferred Assessment and Evaluation Costs**

The mineral reclamation properties and deferred assessment and evaluation costs are comprised as follows:

	<b>Snow Lake \$</b>
<b>Balance December 31, 2012</b>	<b>842,144</b>
Additions	556,706
Recovery (SR&ED)	(37,608)
<b>Balance, December 31, 2013</b>	<b>1,361,242</b>
Additions	46,115
Write-down	<b>(1,407,357)</b>
<b>Balance, December 31, 2014</b>	<b>-</b>

**Snow Lake Concentrate Stockpile – Manitoba**

The Company approached the Manitoba Ministry of Innovation, Energy and Mines in April 2010 and outlined a plan whereby the Company, at its own expense, would use samples obtained from a concentrate stockpile at a historic mine site at Snow Lake, Manitoba to determine whether the material was amenable to bioleaching for liberating and extracting the gold while stabilizing the arsenic as a ferric-arsenate. The Manitoba government granted approval for the Company to conduct the sampling program, subject to oversight by an independent engineering consulting firm which the government engaged to ensure that there would be no adverse environmental impacts from drilling through the arsenopyrite.

In February 2011, the Company tendered a proposal for the remediation of the arsenopyrite stockpile at Snow Lake under a request for proposals from Manitoba Innovation, Energy and Mines, and in April 2011, the Company was awarded the contract by the Mines Branch of the Manitoba Department of Innovation, Energy and Mines. The Company would recover payable metals for its own account from the stockpile while treating the contained arsenic.

The remediation agreement required the operation of a bioleaching plant by December 31, 2014. The Company has decided to not extend the deadline and ceases development of this project. As a result, at December 31, 2014, all deferred costs related to this project were written off.

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**8. Equipment**

Equipment consists of the following:

<b>Cost</b>	<b>Equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
Balance, December 31, 2012	<b>2,794</b>	<b>2,794</b>
Additions	-	-
Balance, December 31, 2013	<b>2,794</b>	<b>2,794</b>
Additions	-	-
Balance, December 31, 2014	<b>2,794</b>	<b>2,794</b>

<b>Accumulated Depreciation</b>	<b>Equipment</b>	<b>Total</b>
Balance, December 31, 2013	<b>2,479</b>	<b>2,479</b>
Additions	<b>315</b>	<b>315</b>
Balance, December 31, 2013	<b>2,794</b>	<b>2,794</b>
Additions	-	-
Balance, December 31, 2014	<b>2,794</b>	<b>2,794</b>

<b>Net book value at December 31, 2012</b>	<b>315</b>	<b>315</b>
<b>Net book value at December 31, 2013</b>	<b>Nil</b>	<b>Nil</b>
<b>Net book value at December 31, 2014</b>	<b>Nil</b>	<b>Nil</b>

**9. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following:

	<b>As at December 31 2014 \$</b>	<b>As at December 31 2013 \$</b>
Trade payables	<b>524,258</b>	435,355
Accrued liabilities & other	<b>373,008</b>	276,650
<b>Total</b>	<b>897,266</b>	712,005

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**10. Related Party Transactions**

Related party transactions consist of the following for the year ended:

	<b>December 31 2014</b>	December 31 2013
	\$	\$
Aggregate compensation included in salaries and management fees	<b>285,000</b>	<b>285,000</b>
Share-based compensation	-	<b>24,500</b>
Total	<b>285,000</b>	<b>309,500</b>

Included in accounts payable and accrued liabilities is \$408,218 due to related parties at December 31, 2014 (2013 - \$187,030).

See notes 11, 12 and 13.

**11. Debentures Payable**

**Convertible Debenture – Matured April 25, 2014**

Between April 25, 2012 and May 3, 2012, the Company closed two tranches totaling \$585,000 of subscriptions of a private placement whereby the Company issued 58.5 units, with each unit being comprised of a 2-year \$10,000 principal convertible redeemable debenture and 10,000 common share purchase warrants.

The Debentures matured on April 25, 2014 and bore interest at a fixed rate of 12% per year payable quarterly starting September 30, 2012. Under the terms of the 2-year debentures, the holders of the debentures had the option to convert their debentures in full into common shares at a price of \$1.00 per share. Each warrant was exercisable for one common share at a price of \$1.00 per common share until April 25, 2014.

The Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Debenture Liability") of \$385,560 was computed as the present value of future principal and interest payments discounted at a rate of 42% per annum. The residual value of \$199,440 was attributed to the equity components and allocated equally between the 585,000 warrants issued and the option to convert the debentures into 585,000 common shares (the "Conversion Feature") as their exercise prices and expected lives were equal. The transaction costs totaling \$48,910, comprised of a cash commission of \$32,500 and 42,000 finder's warrants valued at \$13,711, were then allocated proportionally to each component with the Debenture Liability being allocated \$32,240 and the remaining \$16,670 allocated equally between the warrants and the Conversion Feature.

On August 28, 2014, the Company came to an agreement with holders of the 12% convertible debenture that matured on April 25, 2014. The outstanding debentures of \$585,000 and accrued interest of \$91,350 amounted to \$676,350, which were settled through the issuance of 13,527,000 common shares of the Company at a price of \$0.05 per common share. Included in this settlement, directors, officers and a company controlled by an officer of the Company settled debentures totaling \$150,000 and accrued interest of \$24,000 through the issuance of 3,480,000 common shares of the Company.

Notes to Consolidated Financial Statements

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**11. Debentures Payable - continued**

	As at December 31 2014 \$	As at December 31 2013 \$
Face value of debentures	585,000	585,000
Discount on face value of debentures	(199,440)	(199,440)
Transactions costs allocated to debentures	(32,240)	(32,240)
Accumulated accretion	231,680	201,912
Settlement by issuance of common shares	(585,000)	-
	-	555,232

**Aquila Resources Inc.'s Convertible Debentures - Maturing April 13, 2015**

Under the Plan of Arrangement ("Arrangement") completed with Aquila, the Company assumed 20% of Aquila Resources Inc.'s ("Aquila") debenture obligation which consists of 43 \$10,000 unsecured convertible debentures, initially maturing on October 13, 2011 but having been extended to April 13, 2012, and bearing interest at 18% per year payable semi-annually. On December 1, 2010, 20% of the book value of the debenture obligation was \$66,642 and was attributed to the Company; this will accrete to \$86,000 over the remaining life of the debenture. Upon maturity, the Company will pay to Aquila 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity, and Aquila will repay the debenture obligation and accrued interest to the debenture holders. The Company and Aquila have an officer in common.

The convertible debentures may be converted by the holders at any time at a price of \$1.00 per common share (the "Conversion Price") or in the event that the closing price of Aquila's common shares on the TSX-V is at or greater than \$1.50, Aquila shall have the right, in its sole discretion, to redeem the convertible debentures through the issuance of common shares at the Conversion Price. For every share of Aquila issued in the event of a conversion, one-fifth of a common share of the Company will be issued.

On October 13, 2011, Aquila extended the expiry date of \$410,000 principal amount of these convertible debentures and 410,000 of the common share purchase warrants originally issued in October 2010. Each holder of debentures and warrants was offered the choice to either (i) extend the maturity date of the debentures held by that holder to April 13, 2012, in which case the expiry date of the warrants held by that holder would also be extended to April 13, 2012, or (ii) accept payment in full of the debentures on the original maturity date of October 13, 2011, in which case the warrants held by that holder would also expire on the original expiry date of October 13, 2011. The holder of \$20,000 principal amount of the debentures elected to be repaid, and the balance of \$410,000 principal amount of debentures was extended and remains outstanding. The fair value of the extension of the warrants was calculated using the Black-Scholes option pricing model at \$32,000. The assumptions used to determine the value were: expected dividend yield - 0%; weighted expected volatility - 142.7%; risk-free interest rate - 1.1%; and an expected life of 0.5 years. The \$32,000 was then applied as a discount on the face value of the debentures, of which \$6,400 was attributed to the Company. The effective interest rate of the extended debentures is 36.4%.

**Notes to Consolidated Financial Statements**

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**11. Debentures Payable - continued**

On April 17, 2012, Aquila extended the expiry of these convertible debentures and 410,000 of the common share purchase warrants originally issued in October 2010. Each holder of debentures and warrants agreed to extend the maturity date of the debentures held to April 13, 2015 and the expiry date of the warrants held by that holder to April 13, 2015. (See Note 23) The fair value of the extension of the convertible debentures was determined by revaluing the debt using discounted cash flows and a discount rate of 35%. The fair value of the debt was determined to be \$314,000 with the residual \$96,000 allocated to the conversion feature and applied as a discount on the face value of the debentures, of which \$19,200 was attributed to the Company.

Despite the modifications in 2011 and 2012, these debentures continue to bear interest at 18% per year payable semi-annually.

The proportionate share of the debenture has been attributed to the Company as follows:

	\$
<b>Carrying value, December 31, 2012</b>	67,163
Accretion expense	6,400
<b>Carrying value, December 31, 2013</b>	73,563
Accretion expense	6,400
<b>Carrying value, December 31, 2014</b>	79,963

**12. Bridge Loan**

On July 3, 2013, the Company arranged a bridge loan that would enable the Company to complete its technical preparations for the Snow Lake project. Specifically, the Company planned to use the funds to complete its front end engineering design (F.E.E.D.) study which remained an integral part of the Snow Lake Project financing.

The bridge loan allowed the Company to receive \$600,000 comprised of (a) an initial \$300,000 within 10 days of closing, and (b) a second \$300,000 to be drawn after the Company has confirmed that the underlying contract with the Province of Manitoba can be used as collateral for the loan. All loans were subject to interest at the rate of 10% per annum, and was to be repaid initially by November 20, 2013, subject to the Company's right to extend repayment. In addition, the loans were convertible into common stock in the context of the price of the Company's shares at the time of filing the loan agreement with the Canadian Securities Exchange which was \$0.40 per share (the "Conversion Feature").

The Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Bridge Loan") of \$576,800 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum. The residual value of \$23,200 was attributed to the Conversion Feature and is recorded in the option reserve. Accretion expense of \$23,200 was recorded for the year ended December 31, 2013.

On August 28, 2014, the Company came to an agreement with the holder of the 10% bridge loan that matured on February 15, 2014. The outstanding bridge loan of \$600,000 and accrued interest of \$110,796 amounted to \$710,796, which was settled through the issuance of 14,215,934 common shares of the Company at a price of \$0.05 per common share. The Company and the holder of the bridge loan have a director in common.

**Notes to Consolidated Financial Statements**

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**13. Share Capital**

**Authorized:**

Unlimited common shares without par value

**Issued and outstanding:**

	Number of shares	Amount \$
<b>Balance, December 31, 2012</b>	<b>9,751,010</b>	<b>2,378,769</b>
Private placement (ii)	200,000	100,000
Warrants issued in private placement (ii)	-	(54,000)
Share issue costs	-	(1,500)
<b>Balance, December 31, 2013</b>	<b>9,951,010</b>	<b>2,423,269</b>
Private placement (iii)	1,400,000	70,000
Warrants issued in private placement (iii)	-	(32,372)
Shares for debt conversion (iv)	30,042,934	1,502,146
<b>Balance, December 31, 2014</b>	<b>41,393,944</b>	<b>3,963,043</b>

- (i) Share consolidation: On July 21, 2014, the Company completed a share consolidation of the Company's common shares on the basis of one post consolidation common share for each five pre-consolidation common shares. The 56,755,027 common shares issued and outstanding prior to the consolidation, which was effective as of July 22, 2014, were consolidated to 11,351,010 common shares.

The Company's current outstanding stock options and warrants have been adjusted on the same basis, with proportionate adjustments being made to the stock option and warrant exercise prices. All references in these consolidated financial statements to common shares, per share amounts, warrants and options for all periods presented have been retroactively restated to reflect this consolidation.

- (ii) On November 7, 2013, the Company completed a private placement and issued 200,000 units at a price of \$0.50 per unit for aggregate gross proceeds of \$100,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.75 for 24 months from the date of closing. All securities issued in connection with the offering and the underlying securities were subject to a four month hold period. The fair value of common share purchase warrants issued in this placement was estimated at \$54,000.
- (iii) On May 21, 2014, the Company completed a private placement for gross proceeds of \$70,000 and issued 1,400,000 units at \$0.05 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.25 for a period of 3 years. All securities issued in connection with the offering and the underlying securities were subject to a four month hold period. The fair value of common share purchase warrants issued in this placement was estimated at \$32,372. Directors, officers and companies controlled by officers or directors subscribed for 1,100,000 units for gross proceeds of \$55,000.

**Notes to Consolidated Financial Statements**

December 31, 2014 and 2013

**13. Share Capital - continued**

(iv) On August 28, 2014, the Company announced that it came to an agreement with holders of both the 12% convertible debenture that matured on April 26, 2014 and the 10% bridge loan that matured on February 15, 2014. The combined outstanding debentures and bridge loan amounting to \$1,387,146 was settled through the issuance of 27,742,934 common shares of the Company at a price of \$0.05 per common share. In addition, a portion of the accounts payable for professional services and management payroll in the total amount of \$115,000 were converted to 2,300,000 common shares as part of this transaction. Included in this amount was \$70,000 of accounts payable owing to an officer and a company controlled by an officer of Company.

**14. Warrant Reserve**

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants are as follows:

	December 31, 2014		December 31, 2013	
	Number Outstanding <sup>(A)</sup>	Weighted Average Exercise Price \$ <sup>(A)</sup>	Number Outstanding <sup>(A)</sup>	Weighted Average Exercise Price \$ <sup>(A)</sup>
Balance, beginning of year	2,760,333	0.90	2,653,333	0.90
Issued	1,400,000	0.25	200,000	0.75
Expired	(2,560,333)	0.85	(93,000)	1.40
Balance, end of year	1,600,000	0.31	2,760,333	0.90

(A) Please refer to note 13(i) for information on share consolidation.

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at December 31, 2014 are as follows:

Expiry Date	Weighted Average Exercise Price <sup>(A)</sup> \$	Grant Date Fair Value \$	Warrants Outstanding <sup>(A)</sup>	Contractual Life (years)
November 8, 2016	0.75	54,000	200,000	1.86
May 23, 2017	0.25	32,372	1,400,000	2.34
	0.31	86,372	1,600,000	2.32

**Notes to Consolidated Financial Statements**

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**14. Warrant Reserve - continued**

The fair values of the warrants issued during the years ended December 31, 2014 and 2013, were estimated using the Black-Scholes option pricing model with the following assumptions:

	<b>2014</b>	<b>2013</b>
Risk free interest rate	1.11%	1.26%
Expected dividend yield	Nil	Nil
Expected volatility	223%	213%
Expected life	3 years	3 years

Option pricing models require the input of subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the estimate of fair value, and therefore, use of the Black-Scholes option pricing model may not provide a realistic measure of the fair value of the Company's warrants at the date of issue.

**Aquila Warrants**

Pursuant to the Arrangement completed with Aquila in December 2010, Aquila has certain obligations pursuant to the Aquila warrants in existence at the time of the Arrangement with, which upon being exercised, shall be satisfied by the issuance of one common share from Aquila and 0.4 common shares of the Company in accordance with the terms of the Arrangement and share consolidation of Aquila. The Company and Aquila have an officer in common.

Upon the exercise of any Aquila warrants following the Arrangement, Aquila shall pay to the Company 17% of the exercise proceeds as consideration for the issuance of the Company's common shares. Aquila shall retain the balance of the aggregate exercise price as consideration for the issuance of its common shares from the exercise of the warrant.

As of December 31, 2014, Aquila had 2,111,500 common share purchase warrants (with exercise prices ranging from \$1.00 to \$1.20 and expiry dates of April 13, 2015 and June 17, 2015) which are subject to the Arrangement. The Company's obligation, if these warrants were exercised prior to expiry, would be to issue 844,600 common shares.

**Notes to Consolidated Financial Statements**

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**15. Stock Options**

The Company has a stock option plan (the “Plan”), under which the Company may grant options to directors, officers, employees, and third party service providers. Under the terms of the Plan that was re-approved by the shareholders on July 26, 2013, the Company is authorized to issue a maximum of 10% of the issued and outstanding shares.

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. The options granted under the Plan are non-assignable, have a term of 5 years and vest over periods of up to two years from the date of issue.

	December 31, 2014		December 31, 2013	
	Number Outstanding <sup>(A)</sup>	Weighted Average Exercise Price \$ <sup>(A)</sup>	Number Outstanding <sup>(A)</sup>	Weighted Average Exercise Price \$ <sup>(A)</sup>
Balance, beginning of year	830,000	0.90	700,000	0.75
Granted	-	-	150,000	1.00
Expired/Cancelled	(122,000)	0.91	(20,000)	1.00
Balance, end of year	708,000	0.88	830,000	0.90

(A) Please refer to note 13(i) for information on share consolidation.

Options to purchase common shares outstanding at December 31, 2014 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	Weighted Average Exercise Price <sup>(A)</sup> \$	Grant Date Fair Value \$	Number of Options Outstanding <sup>(A)</sup>	Number of Options Exercisable <sup>(A)</sup>	Weighted Average Contractual Life (years)
December 6, 2015	0.75	109,392	345,000	345,000	0.93
March 17, 2016	1.00	4,980	10,000	10,000	1.21
July 8, 2017	1.00	166,851	243,000	243,000	2.52
March 17, 2018	1.00	77,257	110,000	110,000	3.21
	0.90	358,480	708,000	708,000	1.83

During the year ended December 31, 2014, the Company granted no new options (for the year ended December 31, 2013 – 150,000). The Company recognized a total expense of \$Nil for the year ended December 31, 2014 (2013 - \$105,350) in respect of the options vesting during the year. Share based payments expense is included in general and administrative costs.

**Notes to Consolidated Financial Statements**

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**15. Stock Options - continued**

The fair values of the options issued during the year ended December 31, 2013 were estimated using the Black-Scholes option pricing model with the following assumptions:

	<b>2013</b>
Risk free interest rate	1.34%
Expected dividend yield	Nil
Expected volatility	253%
Expected life	2.4 years

Option pricing models require the input of subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the estimate of fair value, and therefore, use of the Black-Scholes option pricing model, may not provide a realistic measure of the fair value of the Company's options at the date of issue.

**16. 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 \$1,897,330 (2013 – \$1,199,244) and the weighted average number of common shares outstanding of 14,753,364 (2013 – 9,781,054). Diluted loss per share did not include the effect of share purchase options and warrants as they are anti-dilutive.

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**17. Income Taxes**

The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended December 31st is as follows:

	2014 \$	2013 \$
<b>Loss before recovery of income taxes</b>	<b>(1,998,330)</b>	<b>(1,199,244)</b>
Expected income tax recovery	<b>(530,000)</b>	(317,800)
Tax rate changes and other adjustments	<b>26,000</b>	28,720
Non-deductible expenses	-	36,920
Change in tax benefits not recognized	<b>403,000</b>	252,160
<b>Recovery of income taxes</b>	<b>(101,000)</b>	-

**Deferred income tax**

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2014 \$	2013 \$
<b>Deferred income tax assets</b>		
Non-capital losses carried forward	<b>3,289,110</b>	3,089,100
SR&ED pool	<b>593,600</b>	593,610
Research and development tax credits	<b>122,900</b>	122,950
Donations	<b>3,000</b>	3,000
Share issue costs	<b>43,900</b>	72,500
Mineral interests	<b>1,497,800</b>	90,420
Equipment and intangible assets	<b>1,957,800</b>	1,957,630
Debentures payable	-	61,750

**Notes to Consolidated Financial Statements**

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**17. Income Taxes - continued**

The Company's Canadian non-capital income tax losses expire as follows:

2030	\$ 162,300
2031	1,223,470
2032	746,560
2033	956,780
2034	200,000
	<hr/> \$ 3,289,110 <hr/>

Share issue and financing costs will be fully amortized by December 31, 2017.

Research and development tax credits expire from 2031 to 2032.

The remaining deductible temporary differences are expected to carry forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

**18. Operating and Administrative**

Operating and administrative expense consists of the following:

	<b>For the year ended December 31</b>	
	<b>2014</b>	2013
	\$	\$
Salaries and management fees (note 10)	<b>309,161</b>	417,524
Share based payments (note 10)	-	105,350
Professional fees	<b>32,884</b>	203,854
Shareholder information and filing fees	<b>38,756</b>	63,612
Travel	<b>5,062</b>	39,535
General office expenses	<b>78,602</b>	112,092
Depreciation	-	315
Foreign exchange loss (gain)	<b>1,634</b>	(7,457)
<b>Total</b>	<b>466,099</b>	934,825

**Notes to Consolidated Financial Statements**

December 31, 2014 and 2013

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**19. Finance Charges**

Finance charges consist of the following:

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	<b>For the year ended December 31</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Interest and bank charges	<b>3,448</b>	4,111
Debenture interest	<b>56,010</b>	84,960
Bridge loan interest	<b>84,996</b>	25,800
Accretion on debenture	<b>36,168</b>	149,548
<b>Total</b>	<b>180,622</b>	264,419

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**20. Financial Risk Factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to subscriptions receivable and sales tax receivable is remote.

*Liquidity risk*

As at December 31, 2014, the Company had a cash balance of \$572 (2013 - \$11,071) to settle current liabilities of \$975,851 (2013 - \$1,940,750). The Company does not have sufficient cash reserves to fund its administrative costs and fully fund all project development initiatives for the coming twelve month period, and to repay its liabilities to trade creditors and debt holders. Management is actively involved in identifying reclamation ventures amenable to the application of the Company's technology and in seeking new equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives.

*Market risk*

*(a) Interest rate risk*

The Company has cash earning interest at a variable interest rate and debentures payable bearing interest at a fixed rate of 18% per year. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**20. Financial Risk Factors - continued**

*(b) Foreign currency risk*

The Company's functional currency is the Canadian dollar. Major purchases are transacted in Canadian dollars. The Company funds certain operations and administrative expenses using United States dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

*(c) Price risk*

The Company is not exposed to price risk with respect to commodity prices because the Company is not a producing entity.

**21. Capital Management**

The Company defines capital as share capital, warrant reserve, and option reserve. The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, in order to support the acquisition, assessment and evaluation, and development of mineral reclamation properties. 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 is currently in the early stages of evaluation and assessment of projects; as such, the Company is dependent on external financing to fund its activities. In order to carry out the assessment and evaluation of the projects 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.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company does not have externally imposed capital requirements.

The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2014 and 2013.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the Canadian Securities Exchange ("CSE"). The impact of any violation of CSE is not known and is ultimately dependent on the discretion of the CSE.

**Notes to Consolidated Financial Statements**

*December 31, 2014 and 2013*

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**22. Commitments and Contingencies**

The Company currently has an employment agreement with the provision of termination and change of control benefits with an officer of the Company. The agreement for the officer provides that in the event that their employment is terminated by the Company other than for cause then the officer shall be entitled to a lump sum payment amount equal to 12 months base salary plus 1 month salary for each year of service from December 2, 2010, to a max of 36 months base salary. If a change of control were to occur, the officer would be entitled to 2 years of compensation (salary plus bonus), or the equivalent of \$450,000. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

**Environmental matters**

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

**23. Subsequent Events**

Loan Agreement

On January 20, 2015, the Company arranged for a bridge loan from a third party. The purpose of the loan is to provide working capital for future exploration and development projects.

The terms of the bridge loan are as follows; (i) Total amount available of bridge loan is \$150,000, (ii) bonus shares of 200,000 common shares of the Company for every \$50,000 tranche, up to a total of 600,000 common shares can be issued if the full amount is drawn down, and (iii) a 1% Net Profit Interest ("NPI") in a future remediation project. The loan is due 120 days from the date of the first advance (May 20, 2015). If the loan is not repaid at maturity or reorganized, interest will be 1.5% per month compounded.

Shares For Debt

On February 2, 2015, the Company settled \$50,000 of accrued salaries and management fees by issuing one million common shares of the Company. The following insiders participated; M. Ross Orr, president and Chief Executive Officer, 500,000 common shares issued in settlement of \$25,000 of accrued fees, and Louis Nagy, Chief Financial Officer, 500,000 common shares issued in settlement of \$25,000 of accrued fees.