TSX: BAR
OTCQX: BALMF

BALMORAL RESOURCES

(An Exploration Stage Company)

AUDITED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

December 31, 2014 and 2013

<u>Corporate Head Office</u>

2300-1177 West Hastings Street
Vancouver, British Columbia
Canada
V6E 2K3
Tel: 604-638-3664

BALMORAL RESOURCES LTD.
(An Exploration Stage Company)
AUDITED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

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Independent Auditors' Report

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SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BALMORAL RESOURCES LTD.

We have audited the accompanying financial statements of Balmoral Resources Ltd., which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Balmoral Resources Ltd. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
March 26, 2015

7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

Tel: 604 687 1231
Fax: 604 688 4675
smytheratcliffe.com

BALMORAL RESOURCES LTD.
(An Exploration Stage Company)
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
As at December 31

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 15,587,381	$ 10,141,937
Accounts receivable	6,258	2,417
Input tax credits receivable	140,994	464,704
Refundable tax credit (Note 6)	248,126	-
Marketable securities (Note 4)	152,778	458,333
Prepaid expenses (Note 9)	151,012	112,120
	16,286,549	11,179,511
Property, plant and equipment (Note 5)	5,336	6,670
Exploration and evaluation assets (Note 6)	40,712,432	31,566,322
	$ 57,004,317	$ 42,752,503
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	$ 452,507	$ 281,276
Other liabilities (Note 11)	3,768,262	467,780
	4,220,769	749,056
Deferred income tax liability (Note 10)	4,261,117	2,908,902
	8,481,886	3,657,958
Shareholders' equity		
Capital stock (Note 7)	64,253,566	52,682,398
Share-based payment reserve	7,425,315	5,632,050
Warrant reserve	297	125,150
Accumulated other comprehensive loss	-	(508,835)
Deficit	(23,156,747)	(18,836,218)
	48,522,431	39,094,545
	$ 57,004,317	$ 42,752,503

Approved on behalf of the Directors:

"Graeme Currie" Director — *"Lawrence W. Talbot"* Director
Graeme Currie — Lawrence W. Talbot

The accompanying notes are an integral part of these financial statements

BALMORAL RESOURCES LTD.
(An Exploration Stage Company)
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
Years Ended December 31

	2014	2013
EXPENSES		
Consulting fees (Note 9)	$ 83,274	$ 78,458
Depreciation	1,334	1,668
Filing and transfer agent's fees	127,642	197,940
Office and miscellaneous	146,210	133,233
Professional fees	200,858	210,155
Rent	87,312	71,703
Salaries and benefits (Note 9)	694,545	517,703
Share-based payments (Notes 8 and 9)	1,880,693	1,699,166
Shareholder communication	647,027	602,609
Travel and related costs	126,392	172,599
Loss before other items	(3,995,287)	(3,685,234)
Other items		
Interest income	111,605	126,901
Fair value adjustment on derivative investments	-	(3,432)
Other asset written-off	-	(1)
Impairment losses on marketable securities (Note 4)	(814,390)	-
Foreign exchange gain	4,640	21,456
Loss before income taxes	(4,693,432)	(3,540,310)
Deferred income tax recovery (expense) (Notes 10 and 11)	372,903	(711,733)
Net loss for the year	(4,320,529)	(4,252,043)
Other comprehensive loss		
Items that may be reclassified subsequently to net income:		
Fair value adjustment on marketable securities (Note 4)	(305,555)	(194,445)
Transfer to impairment losses on marketable securities (Note 4)	814,390	-
Comprehensive loss for the year	$ (3,811,694)	$ (4,446,488)
Basic and diluted loss per share	$ (0.04)	$ (0.05)
Weighted average number of common shares outstanding	101,828,149	87,528,913

The accompanying notes are an integral part of these financial statements

BALMORAL RESOURCES LTD.
(An Exploration Stage Company)
STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Number of shares	Capital stock	Share-based payment reserve	Warrant reserve	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
Balance, December 31, 2012	**84,807,289**	**$ 47,808,040**	**$ 3,911,806**	**$ -**	**$ (314,390)**	**$ (14,584,175)**	**$ 36,821,281**
Shares issued for cash:							
Private placements	13,304,180	6,048,787	-	-	-	-	6,048,787
Allocation of proceeds to warrants	-	(125,150)	-	125,150	-	-	-
Allocation of value to flow-through premium	-	(562,872)	-	-	-	-	(562,872)
Share issuance costs	-	(486,407)	21,078	-	-	-	(465,329)
Share-based payments	-	-	1,699,166	-	-	-	1,699,166
Net loss for the year	-	-	-	-	-	(4,252,043)	(4,252,043)
Fair value adjustment on marketable securities	-	-	-	-	(194,445)	-	(194,445)
Balance, December 31, 2013	**98,111,469**	**$ 52,682,398**	**$ 5,632,050**	**$ 125,150**	**$ (508,835)**	**$ (18,836,218)**	**$ 39,094,545**

The accompanying notes are an integral part of these financial statements

BALMORAL RESOURCES LTD.
(An Exploration Stage Company)
STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Number of shares	Capital stock	Share-based payment reserve	Warrant reserve	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
Balance, December 31, 2013	**98,111,469**	**$ 52,682,398**	**$ 5,632,050**	**$ 125,150**	**$ (508,835)**	**$ (18,836,218)**	**$ 39,094,545**
Shares issued for cash:							
Private placements	8,480,000	14,545,000	-	-	-	-	14,545,000
Allocation of value to flow-through premium	-	(5,025,600)	-	-	-	-	(5,025,600)
Exercise of warrants	3,145,752	2,359,314	-	-	-	-	2,359,314
Exercise of options	527,300	337,665	-	-	-	-	337,665
Property acquisition (Note 6(e))	117,000	211,750	-	-	-	-	211,750
Share issuance costs	-	(1,211,959)	142,717	-	-	-	(1,069,242)
Reallocation on exercise of warrants	-	145,931	(21,078)	(124,853)	-	-	-
Reallocation on exercise of options	-	209,067	(209,067)	-	-	-	-
Share-based payments	-	-	1,880,693	-	-	-	1,880,693
Net loss for the year	-	-	-	-	-	(4,320,529)	(4,320,529)
Fair value adjustment on marketable securities	-	-	-	-	(305,555)	-	(305,555)
Transfer to impairment losses on marketable securities	-	-	-	-	814,390	-	814,390
Balance, December 31, 2014	**110,381,521**	**$ 64,253,566**	**$ 7,425,315**	**$ 297**	**$ -**	**$ (23,156,747)**	**$ 48,522,431**

The accompanying notes are an integral part of these financial statements

BALMORAL RESOURCES LTD.
(An Exploration Stage Company)
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
Years Ended December 31

	2014	2013
OPERATING ACTIVITIES		
Net loss for the year	$ (4,320,529)	$ (4,252,043)
Items not affecting cash:		
Depreciation	1,334	1,668
Share-based payments	1,880,693	1,699,166
Fair value adjustment on derivative investments	-	3,432
Impairment losses on marketable securities	814,390	-
Deferred income tax expense (recovery)	(372,903)	711,733
Other asset written-off	-	1
Changes in non-cash working capital items:		
Accounts receivable	(565)	1,052
Input tax credits receivable	323,710	147,095
Refundable tax credit	-	2,138,854
Prepaid expenses	(38,892)	62,142
Accounts payable and accrued liabilities	41,783	(110,892)
Net cash flows provided by (used in) operating activities	(1,670,979)	402,208
FINANCING ACTIVITIES		
Shares issued for cash	17,241,979	6,048,787
Share issuance costs	(1,069,242)	(465,329)
Net cash flows provided by financing activities	16,172,737	5,583,458
INVESTING ACTIVITIES		
Investment in and expenditures on exploration and evaluation assets	(9,056,314)	(8,537,012)
Net cash flows used in investing activities	(9,056,314)	(8,537,012)
Increase (decrease) in cash and cash equivalents	5,445,444	(2,551,346)
Cash and cash equivalents, beginning of the year	10,141,937	12,693,283
Cash and cash equivalents, end of the year	$ 15,587,381	$ 10,141,937
Cash and cash equivalents consist of the following:		
Cash	$ 853,923	$ 613,713
Term deposits	14,733,458	9,528,224
	$ 15,587,381	$ 10,141,937
Supplemental cash flow information		
Accounts receivable related to exploration and evaluation assets	$ 5,693	$ 2,417
Accounts payable related to exploration and evaluation assets	$ 256,060	$ 127,060
Refundable tax credit for exploration and evaluation assets	$ 248,126	$ -
Marketable securities received for property option	$ -	$ 180,000
Common shares issued for property acquisition (Note 6(e))	$ 211,750	$ -
Agent warrants issued for finder's fees	$ 142,717	$ 21,078

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Balmoral Resources Ltd. (the "Company" or "Balmoral") is incorporated under the laws of British Columbia, Canada, and is primarily engaged in the acquisition and exploration of mineral properties. The address of its head office is 2300 – 1177 West Hastings Street, Vancouver, British Columbia, Canada V6E 2K3. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The Company is a publically-traded Company listed on the Toronto Stock Exchange ("TSX") under the symbol "BAR", on the OTCQX market in the United States under the symbol "BALMF" and on the Frankfurt Stock Exchange under the symbol "BOR".

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company incurred a loss of $4,320,529 for the year ended December 31, 2014 (2013 - $4,252,043). The Company has working capital as at December 31, 2014 of $12,065,780 (2013 - $10,430,455) and a deficit of $23,156,747 (2013 - $18,836,218). During the year ended December 31, 2014, the Company closed two brokered private placements issuing 2,580,000 and 5,900,000 flow-through common shares at a price of $1.75 and $1.70 per share, respectively, for gross proceeds of $14,545,000. The Company also received additional funds from the issuance of 527,300 common shares on exercise of 480,000 stock options at an exercise price of $0.60 and 47,300 stock options at an exercise price of $1.05 for total gross proceeds of $337,665 and the issuance of 3,145,752 common shares on exercise of 3,145,752 share purchase warrants and agent's warrants at an exercise price of $0.75 for total proceeds of $2,359,314. These funds provide sufficient funding for operations for the ensuing year.

The business of mining and exploration involves a high degree of risk and there can be no assurance that exploration programs will result in profitable mining operations. The Company has sufficient cash to meet its requirements for administrative overhead, to conduct due diligence on exploration and evaluation acquisition targets, and to conduct exploration of its exploration and evaluation assets.

The Company does not generate cash flows from operations to fund its activities, and therefore, relies principally upon the issuance of securities for financing. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of securities to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. Although these financial statements do not include any adjustments that may result from the inability to secure future financing, such a situation would have a material adverse effect on the Company's business, results of operations and financial condition.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. The accounting policies, methods of computation and presentation applied in these financial statements are consistent with those of the previous financial year. The Board of Directors approved the financial statements on March 26, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Significant accounting estimates and judgments

The preparation of 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 year. Actual outcomes could differ from these estimates. These financial statements include estimates which, 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 years if the revision affects both current and future years. 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.

Critical accounting estimates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Assumptions used in the calculation of the fair value assigned to share-based payments

The Company uses the Black-Scholes option pricing model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's equity reserves.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

Valuation of marketable securities

Management assesses at the end of each reporting period whether there had been any other-than-temporary impairment on its investments, using objective evidence to determine if the marketable securities are impaired. Listed prices on public stock exchanges are used to determine if the fair value is at a significant and prolonged decline below the historical cost of the marketable securities. Management assessed other-than-temporary impairment on its marketable securities for the year ended December 31, 2014.

Provisions for environmental rehabilitation

The Company assesses its provisions for environmental rehabilitation on an annual basis or when new material information becomes available. Provisions for environmental rehabilitation require management to make estimates of the future costs of the work required to comply with legal or constructive obligations. Actual costs incurred may differ from those amounts estimated. Future changes to environmental laws and regulations could increase the extent of work required to be performed, which could materially impact the amounts charged to operations for provisions for environmental rehabilitation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Significant accounting estimates and judgments (Continued)

Critical accounting judgments

Critical accounting judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Refundable tax credits and flow-through expenditures

The Company is entitled to refundable input tax credits and tax credits on qualified resource expenditures incurred in Canada. Management's judgment is applied in determining whether expenditures are eligible for claiming such credits.

The Company is also required to spend proceeds received from the issuance of flow-through shares on qualifying resource expenditures. Management’s judgment is applied in determining whether qualified expenditures have been incurred. Differences in judgment between management and regulatory authorities can materially increase the flow-through premium liability and outstanding commitments (Note 11).

Valuation of exploration and evaluation assets

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as: the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted or planned and results of exploration and evaluation activities on the exploration and evaluation assets. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss. Management has determined that there were no indicators of impairment during the years ended December 31, 2014 and 2013.

Evaluation of the nature of interests in undivided assets

Management has determined that the contractual arrangement in Note 6(b) does not meet the definition of a joint operation under IFRS 11 *Joint Arrangements* as the Company and GTA Resources and Mining Inc. (“GTA”) do not share joint control. However, as the Company retains a 49% undivided interest on the Northshore property, the Company has accounted for this interest by recognizing its share of the assets, liabilities and expenditures under the arrangement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Cash and cash equivalents

Cash and cash equivalents includes cash on deposit at financial institutions and highly liquid investments with original maturities of three months or less from the date of purchase, that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

(d) Property, plant and equipment

Recognition and measurement

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability, if any, is recognized within provisions.

Property, plant and equipment are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation

Depreciation is recognized in profit or loss on a declining-balance basis at the following annual rates:

Office equipment	20%
Vehicle	20%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Mineral exploration and evaluation expenditures

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation assets

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, geological and geophysical evaluation, surveying costs, drilling costs, payments made to contractors, and camp costs during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer a part of a mineral interest as consideration for an agreement by the transferee to meet certain exploration and evaluation expenditures, which would have otherwise been undertaken by the Company. The Company uses the carrying amount of the interest before the farm-out as the carrying amount for the portion of the interest retained. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the cost previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for in profit or loss.

When a project is deemed to no longer have commercially viable prospects for the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as “mines under construction”. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has not commenced operations, any incidental revenues, including receipt of input tax credit receivables, earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

(f) Impairment of non-current assets

Non-current assets are evaluated at least annually by management for indicators that the carrying value is impaired. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit (“CGU”), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU’s fair value less costs to sell and its value in use.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of non-current assets (Continued)

An impairment loss is recognized in profit or loss to the extent the carrying amount exceeds the recoverable amount.

In calculating the recoverable amount, if applicable, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social and legal, and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions, and hence, affect the recoverable amount.

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

(g) Reversal of impairment

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, if no impairment loss had been recognized.

(h) Provisions for environmental rehabilitation

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. The liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third-party industry specialists and/or internal expertise, and discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Additional disturbances and changes in closure and reclamation estimates are accounted for as incurred with a change in the corresponding capitalized cost. Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred.

(i) Mining and exploration tax recoverable

The Company recognizes mining and exploration tax recoveries in the period in which the related qualifying resource expenditures are incurred. The amount recoverable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current and deferred income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(k) Capital stock

The proceeds from the exercise of stock options and warrants and the cost initially recognized on their issuance are recorded as capital stock in the amount for which the option or warrant enabled the holder to purchase a share in the Company.

Commissions paid to agents, and other related share issue costs, such as legal, auditing, and printing, on the issue of the Company’s shares are charged directly to capital stock.

Valuation of equity units issued in private placements

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to common shares issued in the private placements at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the warrants. Any fair value attributed to the warrants is recorded in shareholders’ equity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Capital stock (Continued)

Flow-through shares

The Company will, from time to time, issue flow-through common shares to finance a portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company allocates the flow-through share into i) fair value of capital stock and ii) the residual as a flow-through share premium, which is recognized as a liability. On issuance of a flow-through unit, the Company allocates the flow-through unit into i) fair value of capital stock, ii) fair value of a warrant and iii) the residual as a flow-through share premium, which is recognized as a liability. Upon expenses being incurred, the Company derecognizes the liability and recognizes a credit to deferred tax expense.

The Company is required to spend the proceeds received from the issuance of flow-through shares on Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received, but not yet expended at the end of the Company's period, is disclosed separately in Note 11.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(l) Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period using the graded vesting method. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Share-based payments (Continued)

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares or are directly related to the acquisition of an exploration and evaluation asset. Amounts related to the issuance of shares are recorded as a reduction of capital stock, whereas amounts directly related to the acquisition of an exploration and evaluation asset are capitalized as a component of the asset cost.

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

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to capital stock, and adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

(m) Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, available-for-sale ("AFS"), held-to-maturity or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through profit or loss. Cash and cash equivalents are included in this category of financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Loans and receivables are comprised of accounts receivable.

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any other financial asset category. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive loss and classified as a component of equity. AFS assets include marketable securities.

Management assesses the carrying value of AFS financial assets at each reporting date and any impairment charges are recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in accumulated other comprehensive loss are included in profit or loss.

Impairment of financial assets

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

Financial liabilities

The Company classifies its financial liabilities in the following categories: other financial liabilities and financial liabilities at fair value through profit or loss.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity date. Other financial liabilities include accounts payable and accrued liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial instruments (Continued)

Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss

This category is comprised of derivative financial liabilities. Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss. Derivative financial liabilities include warrants issued by the Company denominated in a currency other than the Company's functional currency.

(n) New accounting pronouncements

The IASB or IFRIC have issued pronouncements effective for accounting periods beginning on or after January 1, 2015. Only those which may significantly impact the Company are discussed below:

IFRS 9 Financial Instruments

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Financial liabilities are classified in a similar manner to under IAS 39, however, there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 also introduces a "fair value through other comprehensive income" category for certain debt instruments. The finalized version of IFRS 9 is applicable to the Company's annual periods beginning January 1, 2018.

3. RISK MANAGEMENT, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. 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 manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2014. The Company is not subject to externally imposed capital requirements.

The Company classified its cash and cash equivalents as financial assets at fair value through profit or loss; accounts receivable, as loans and receivables; marketable securities, as AFS; and accounts payable and accrued liabilities, as other financial liabilities. The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short term to maturity of these financial instruments.

(Expressed in Canadian Dollars)

3. RISK MANAGEMENT, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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

(a) Credit risk

Concentration of credit risk exists with respect to the Company's cash, as all amounts are held at a single major Canadian financial institution.

The Company's concentration of credit risk and maximum exposure is as follows:

		2014		2013
Cash and cash equivalents	$	15,587,381	$	10,141,937

The credit risk associated with cash and cash equivalents is minimized by ensuring it is placed with a major Canadian financial institution with a strong investment-grade rating issued by a primary ratings agency.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. During the year ended December 31, 2014, the Company raised net proceeds of $16,172,737 from two private placements of common shares and exercise of the stock options and warrants. The proceeds were used for working capital purposes and investment in and expenditures on exploration and evaluation assets. All outstanding liabilities are due within three months of December 31, 2014.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

i. Interest rate risk

The Company's cash and cash equivalents consist primarily of cash held in bank accounts and term deposits. Due to the short-term nature of this financial instrument, fluctuations in market rates do not have a significant impact on estimated fair value as of December 31, 2014. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. Accordingly, the Company is not subject to interest rate risk.

(Expressed in Canadian Dollars)

3. RISK MANAGEMENT, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

ii. Foreign currency risk

During the year ended December 31, 2014, the Company is not exposed to material foreign currency risk.

iii. Fair value hierarchy

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 - Inputs for the asset or liability that are not based upon observable market data.

Assets and liabilities measured at fair value at December 31, 2014:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 15,587,381	-	-	$ 15,587,381
Marketable securities	$ 152,778	-	-	$ 152,778

Assets and liabilities measured at fair value at December 31, 2013:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 10,141,937	-	-	$ 10,141,937
Marketable securities	$ 458,333	-	-	$ 458,333

iv. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk, foreign currency risk or commodity price risk.

The Company is exposed to other price risk related to the fluctuation in the market price of its marketable securities. The Company’s marketable securities are carried at market value and are directly affected by fluctuations in the market value of the underlying securities. The Company’s sensitivity analysis suggests a 10% change in the market prices would not have a material effect on net loss and comprehensive loss

(Expressed in Canadian Dollars)

4. MARKETABLE SECURITIES

As at December 31, 2014, the Company held 3,055,555 (2013 - 3,055,555) common shares of GTA with a fair value of $152,778 (2013 - $458,333). The Company classified these shares as AFS. As at December 31, 2014, based on objective evidence that the fair value of the GTA shares is at a significant and prolonged decline below the historical cost, $814,390 was transferred from accumulated other comprehensive loss to impairment loss on marketable securities in profit or loss.

The Company held 277,778 share purchase warrants of GTA which expired September 12, 2013. These warrants were considered to be derivative investments, which were by definition classified as fair value through profit or loss. As at December 31, 2013, the fair value of the warrants was $Nil and the fair value adjustment for the year ended December 31, 2013 amounted to a loss of $3,432.

5. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment	Vehicle	Total
Cost			
Balance, December 31, 2012, 2013 and 2014	$ 1,681	$ 9,698	$ 11,379
Depreciation			
Balance, December 31, 2012	$ 713	$ 2,328	$ 3,041
Depreciation for the year	194	1,474	1,668
Balance, December 31, 2013	907	3,802	4,709
Depreciation for the year	155	1,179	1,334
Balance, December 31, 2014	$ 1,062	$ 4,981	$ 6,043
Carrying amounts			
At December 31, 2014	$ 619	$ 4,717	$ 5,336
At December 31, 2013	$ 774	$ 5,896	$ 6,670

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

	Fenelon (Note 6(a))	**N2** (Note 6(a))	**Martiniere** (Note 6(a))	**Northshore** (Note 6(b))	**Detour East** (Note 6(c))	**Grasset** (Note 6(d))	**Others** (Note 6(e))	**Total**
Balance, December 31, 2012	$ 4,203,678	$ 1,853,533	$ 11,480,341	$ 594,824	$ 2,978,752	$ 1,900,229	$ 107,968	$ 23,119,325
Acquisition costs								
Cash payments	109	-	-	-	488	3,743	2,037	6,377
Share issuances	-	-	-	-	-	-	-	-
Total acquisition costs	109	-	-	-	488	3,743	2,037	6,377
Deferred exploration costs:								
Camp	198,712	-	1,305,226	2,564	99,266	38,057	55,629	1,699,454
Drilling and analysis	-	-	3,807,385	-	54,608	(6,227)	119,079	3,974,845
Land maintenance and tenure	5,085	4,220	5,677	1,500	2,828	19,338	14,640	53,288
Personnel and geology	23,635	44,178	2,303,222	1,501	104,440	126,840	292,823	2,896,639
Total deferred exploration costs	227,432	48,398	7,421,510	5,565	261,142	178,008	482,171	8,624,226
Total expenditures for the period	227,541	48,398	7,421,510	5,565	261,630	181,751	484,208	8,630,603
Cost recoveries	-	-	-	(225,000)	-	-	-	(225,000)
Quebec mineral exploration tax credit adjustment *	9,795	591	24,895	-	7,777	4,064	626	47,748
Quebec mining tax credit	(1,284)	(79)	(3,264)	-	(1,093)	(544)	(90)	(6,354)
Balance, December 31, 2013	$ 4,439,730	$ 1,902,443	$ 18,923,482	$ 375,389	$ 3,247,066	$ 2,085,500	$ 592,712	$ 31,566,322

* Of $2,186,602 Quebec mineral exploration tax credit the Company applied relating to its 2011 eligible exploration expenditures on the Quebec properties, $47,748 were denied.

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

	Fenelon (Note 6(a))	**N2** (Note 6(a))	**Martiniere** (Note 6(a))	**Northshore** (Note 6(b))	**Detour East** (Note 6(c))	**Grasset** (Note6 (d))	**Others** (Note 6(e))	**Total**
Balance, December 31, 2013	$ 4,439,730	$ 1,902,443	$ 18,923,482	$ 375,389	$ 3,247,066	$ 2,085,500	$ 592,712	$ 31,566,322
Acquisition costs								
Cash payments	-	-	-	-	-	2,683	5,976	8,659
Share issuances	-	-	-	-	-	-	211,750	211,750
Total acquisition costs	-	-	-	-	-	2,683	217,726	220,409
Deferred exploration costs:								
Camp	20,422	-	501,756	8,145	14,485	807,385	2,087	1,354,280
Drilling and analysis	-	-	1,645,622	-	-	3,234,223	-	4,879,845
Land maintenance and tenure	10,162	6,023	3,416	1,500	18,808	18,846	3,383	62,138
Personnel and geology	135,164	8,630	955,135	4,750	14,226	1,608,114	151,545	2,877,564
Total deferred exploration costs	165,748	14,653	3,105,929	14,395	47,519	5,668,568	157,015	9,173,827
Total expenditures for the period	165,748	14,653	3,105,929	14,395	47,519	5,671,251	374,741	9,394,236
Quebec mineral exploration tax credit	(4,261)	(236)	(84,973)	-	(786)	(153,662)	(4,208)	(248,126)
Balance, December 31, 2014	$ 4,601,217	$ 1,916,860	$ 21,944,438	$ 389,784	$ 3,293,799	$ 7,603,089	$ 963,245	$ 40,712,432

6. EXPLORATION AND EVALUATION ASSETS (Continued)

(a) Fenelon, N2 and Martiniere, Quebec

The Company owns 100% interests in each of the Fenelon, N2 and Martiniere properties.

There are certain net smelter return ("NSR") royalties on the properties - 2% at Martiniere, between 2% and 4% for Fenelon and 1% to 5% on the N2 property - in favour of former property owners with said royalties payable on commencement of commercial production. Buyout provisions exist for certain portions of said royalties.

The Company acquired additional claims at the Fenelon property during the year ended December 31, 2013 for staking fees of $109.

On February 2, 2015, the Company agreed to option its N1 (Note 6(e)) and N2 properties (the "Project") to Wealth Minerals Ltd. ("Wealth"). Under the terms of the Option Agreement, Wealth will be granted an option to earn an initial 51% interest in the Project by completing $2,200,000 dollars in exploration on the Project over three years, including a minimum of $1,200,000 in drilling, and issuing 3,000,000 common shares to the Company. Under a second option, Wealth may earn an additional 24% interest in the Project (for an aggregate 75% interest) through additional expenditures of $2,800,000 (for total aggregate expenditures of $5,500,000) and making cash payments of $600,000 to the Company. The Company currently holds a 100% interest in the Project. Wealth received final approval from the TSX Venture Exchange on February 25, 2015 and issued 1,000,000 common shares to the Company.

(b) Northshore, Ontario

As at December 31, 2014 the Company owns a 49% interest in the Northshore property along with certain surface rights attached to the property. The Northshore property mineral rights are underlain by a sliding-scale NSR royalty to a third-party (Autotrac Limited), which is adjusted to the contained number of ounces of gold outlined in a pre-production resource estimate.

On July 24, 2011, the Company and GTA entered into an option agreement whereby GTA was granted the exclusive right to acquire up to a 70% interest in the Northshore property.

Under the terms of the Option Agreement, GTA was granted a First Option to earn an initial 51% interest in the Northshore property by making cash payments to the Company of $50,000 (received), issuing in favour of Balmoral 2,500,000 common shares of GTA (received) and incurring a minimum of $2,500,000 in eligible exploration expenditures (incurred) on the property over a three-year period from the date of receipt of regulatory approval, including the production of a National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101") technical report.

On July 14, 2014, GTA delivered First Option vesting notice to the Company and subsequently advised the Company that it would not be proceeding with a Second Option which had been granted under the terms of the Option Agreement. As a consequence, a 51%/49% participatory contractual arrangement has now been formed with respect to the Northshore property with GTA as the majority holder and project operator. As the Company does not have joint control over the operations, but retains a 49% undivided interest to the property, the Company accounted for the disposal of its Northshore property and the acquisition of this interest in Northshore by recognizing its share of the assets under the arrangement at $389,784, the carrying value of the Northshore property prior to the arrangement.

6. EXPLORATION AND EVALUATION ASSETS (Continued)

(c) Detour East, Quebec

The Company owns a 100% interest in the Detour East property, except for 18 claims, which are in a 63%/37% participatory joint venture with Encana Corp. for which the Company is the operator.

There is a NSR royalty, which relates to the entirety of the property, of 2% to a former property owner, which may be repurchased by the Company at any time, at a cost of $1,000,000 for the first of 50% of the NSR interest and $2,000,000 for the second 50% of the NSR interest.

During the year ended December 31, 2013, the Company acquired additional claims at Detour East property for staking fees of $488.

(d) Grasset, Quebec

The Company acquired a 100% interest by staking a group of mineral claims located east of the Company's Fenelon project (Note 6(a)). During the year ended December 31, 2014, the Company acquired additional claims at Grasset property for staking fees of $2,683 (2013 - $3,743). There are no underlying royalties on the Grasset property.

(e) Others, Quebec

Harri

The Company acquired by staking and holds a 100% interest in, with no underlying royalties, a group of mineral claims that connect the Company's Martiniere and Fenelon properties (Note 6(a)).

Doigt

The Company acquired by staking and holds a 100% interest in, with no underlying royalties, a group of mineral claims located northwest of the Company's Martiniere property (Note 6(a)).

N1

During the year ended December 31, 2013, the Company acquired by staking and holds a 100% interest in, with no underlying royalties, a group of mineral claims located just west of the Company's N2 property (Note 6(a)) for $409.

On February 2, 2015, the Company agreed to option its N1 and N2 (Note 6(a)) properties to Wealth.

Lac Fleuri

During the year ended December 31, 2014, the Company acquired by staking and holds a 100% interest in, with no underlying royalties, two groups of claims located east of the Company's Grasset property (Note 6(d)) for staking fees of $328 (2013 - $1,628).

6. EXPLORATION AND EVALUATION ASSETS (Continued)

(e) Others, Quebec (Continued)

Jeremie

During the year ended December 31, 2014, the Company acquired by staking a 100% undivided interest in the Jeremie property located north of the Fenelon property (Note 6(a)) for $5,648.

Jeremie South

On July 31, 2014, the Company acquired a 100% interest in the Jeremie South property by completing the following property acquisition agreements:

i. Jeremie (ABE) Property Agreement

The Company acquired a 100% interest in the Jeremie (ABE) property from ABE Resources Inc. (“ABE”) through the issuance of 60,000 common shares of the Company fair valued at $109,200 or $1.82 per common share on July 30, 2014 and the granting to ABE of a 1% NSR royalty on the 17 claims which comprise the property.

At any time, the Company will have the right to purchase from ABE 50% of ABE's 1% NSR for $500,000 and shall have a right of first refusal on the sale or transfer of ABE’s royalty interest.

In addition, the Company purchased an existing 2% NSR interest in the property from two underlying vendors through the issuance of 30,000 common shares fair valued at $54,600 or $1.82 per common share on July 30, 2014.

ii. Jeremie 5 Property

The Company acquired a 100% interest in the Jeremie 5 property from an arm’s length individual through the issuance of 20,000 common shares of the Company fair valued $36,400 or $1.82 per common share on July 30, 2014 and the granting to the individual a 1% NSR royalty on the claims which comprise the property.

At any time, the Company will have the right to purchase from the individual 50% of the individual's 1% NSR for $1,000,000 and shall have a right of first refusal on the sale or transfer of the individual’s royalty interest.

iii. Jeremie 8 Property

The Company acquired a 100% interest in the Jeremie 8 property from an arm’s length individual through the issuance of 7,000 common shares of the Company fair valued at $11,550 or $1.65 per common share on August 29, 2014 and the granting to the individual a 1% NSR royalty on the claims which comprise the property.

At any time, the Company will have the right to purchase from the individual 50% of the individual's 1% NSR for $1,000,000 and shall have a right of first refusal on the sale or transfer of the individual’s royalty interest.

7. CAPITAL STOCK

(a) Common shares

Authorized

An unlimited number of common shares without par value.

Share issuances

i. During the year ended December 31, 2014:

a. On November 6, 2014, the Company closed a brokered private placement and raised gross proceeds of $10,030,000 through the issuance of 5,900,000 flow-through common shares at a price of $1.70 per share.

   In consideration of the agents' services, the Company paid cash commission of $501,500 and issued 236,000 agent warrants recorded as share issuance costs. Each agent warrant entitles the agent to purchase one common share of the Company at a price of $1.45 until November 6, 2015. Using the Black-Scholes option pricing model, the agent warrants had a fair value of $47,221, or $0.20 per warrant. In connection with the financing, the Company paid an additional $115,076 in share issuance costs.

b. On June 20, 2014, the Company closed a brokered private placement and raised gross proceeds of $4,515,000 through the issuance of 2,580,000 flow-through common shares at a price of $1.75 per share.

   In consideration of the agents' services, the Company paid cash commission of $225,750 and issued 154,800 agent warrants recorded as share issuance costs. Each agent warrant entitles the agent to purchase one common share of the Company at a price of $1.25 until June 20, 2016. Using the Black-Scholes option pricing model, the agent warrants had a fair value of $95,496, or $0.62 per warrant. In connection with the financing, the Company paid an additional $226,916 in share issuance costs.

c. Issued 445,020 common shares at $0.75 per share pursuant to the exercise of agent's warrants issued October 17, 2013 and October 30, 2013 and reclassified $21,078 from share-based payment reserve to capital stock.

d. Issued 2,700,732 common shares at $0.75 per share to the exercise of warrants issued on October 17, 2013.

e. Issued 480,000 common shares at $0.60 per share on the exercise of stock options granted on January 23, 2014 and reclassified $181,353 from share-based payment reserve to capital stock.

f. Issued 47,300 common shares at $1.05 per share on the exercise of stock options granted on February 6, 2013 and reclassified $27,714 from share-based payment reserve to capital stock.

g. On July 30, 2014, issued 110,000 common shares fair valued at $1.82 pursuant to the Jeremie (ABE) and the Jeremie 5 Property Agreements (Note 6(e)).

7. CAPITAL STOCK (Continued)

(a) Common shares (Continued)

Share issuances (Continued)

i. During the year ended December 31, 2014 (Continued):

   h. On August 29, 2014, issued 7,000 common shares fair valued at $1.65 pursuant to the Jeremie 8 Property Agreement (Note 6(e)).

ii. During the year ended December 31, 2013:

   a. On October 17, 2013, the Company closed the first tranche of its non-brokered private placement and raised gross proceeds of $5,448,209 through the issuance of 7,467,946 flow-through common shares at a price of $0.475 per share and 4,472,788 units at a price of $0.425 per unit. Each unit consists of one non-flow-through common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share at an exercise price of $0.75 until October 17, 2014.

      In consideration of the agents' services, the Company paid the agents a cash commission of $292,111 and issued 428,129 agent warrants recorded as share issuance costs. Each agent warrant entitles the agent to purchase one common share of the Company at a price of $0.75 until October 17, 2014. Using the Black-Scholes option pricing model, the agent warrants had a fair value of $20,414, or $0.048 per warrant. In connection with the financing, the Company paid an additional $41,450 in share issuance costs.

   b. On October 30, 2013, the Company closed the second and final tranche of its non-brokered private placement and raised gross proceeds of $600,578 through the issuance of 422,270 flow-through common shares at a price of $0.475 per share and 941,176 units at a price of $0.425 per unit. Each unit consists of one non-flow-through common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share at an exercise price of $0.75 until October 30, 2014.

      In consideration of the agents' services, the Company paid the agents a cash commission of $12,035 and issued 16,891 agent warrants recorded as share issuance costs. Each agent warrant entitles the agent to purchase one common share of the Company at a price of $0.75 until October 30, 2014. Using the Black-Scholes option pricing model, the agent warrants had a fair value of $665, or $0.039 per warrant. In connection with the financing, the Company paid an additional $119,732 in share issuance costs.

(Expressed in Canadian Dollars)

7. CAPITAL STOCK (Continued)

(b) Warrants

The following common share purchase warrants entitle the holders thereof to purchase one common share for each common share purchase warrant. Warrant transactions are summarized as follows:

	2014		2013	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of the year	3,152,002	$ 0.75	468,000	$ 1.18
Issued	390,800	$ 1.37	3,152,002	$ 0.75
Exercised	(3,145,752)	$ 0.75	-	$ -
Expired	(6,250)	$ 0.75	(468,000)	$ (1.18)
Balance, end of the year	390,800	$ 1.37	3,152,002	$ 0.75

The weighted average remaining contractual life of warrants outstanding at December 31, 2014 was 1.10 (2013 - 0.80) year.

As at December 31, 2014 and 2013, the Company had outstanding warrants as follows:

	2014		2013	
Expiry date	Exercise price	Number of warrants	Exercise price	Number of warrants
October 17, 2014 (agent warrants)	$ 0.75	-	$ 0.75	428,129
October 17, 2014	$ 0.75	-	$ 0.75	2,236,394
October 30, 2014 (agent warrants)	$ 0.75	-	$ 0.75	16,891
October 30, 2014	$ 0.75	-	$ 0.75	470,588
June 20, 2016 (agent warrants)	$ 1.25	154,800	$ -	-
November 6, 2015 (agent warrants)	$ 1.45	236,000	$ -	-
		390,800		3,152,002

The fair value of agent warrants and compensation warrants were determined using the Black-Scholes option pricing model based on the following assumptions:

	2014	2013
Risk-free interest rate	1.07%	1.16%
Expected life of agent warrants and compensation warrants	1.4 years	1.0 year
Expected annualized volatility	78%	76%
Expected dividend yield	0.0%	0.0%

Expected volatility is based on historical price volatility to the extent of the expected life of the warrant.

(Expressed in Canadian Dollars)

7. CAPITAL STOCK (Continued)

(b) Warrants (Continued)

The weighted average fair value of warrants issued in 2014 is $0.37 (2013 - $0.05).

8. SHARE-BASED PAYMENTS

(a) Stock options

Stock option transactions are summarized as follows:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of the year	3,720,000	$ 1.10	3,725,000	$ 1.06
Granted	4,850,000	$ 0.61	2,900,000	$ 1.05
Expired	(110,000)	$ (1.06)	(150,000)	$ (1.05)
Cancelled	-	$ -	(2,755,000)	$ (1.00)
Exercised	(527,300)	$ (0.64)	-	$ -
Balance, end of the year	7,932,700	$ 0.81	3,720,000	$ 1.10

The weighted average remaining contractual life of options outstanding at December 31, 2014 was 3.48 (2013 - 3.67) years.

Stock options outstanding and exercisable are as follows:

	2014			2013		
Expiry date	Exercise price	Options outstanding	Options exercisable	Exercise price	Options outstanding	Options exercisable
February 17, 2014	$ 1.00	-	-	$ 1.00	75,000	75,000
February 17, 2014	$ 1.25	-	-	$ 1.25	25,000	25,000
February 17, 2014	$ 1.05	-	-	$ 1.05	10,000	10,000
June 6, 2016 (Note 12)	$ 1.25	855,000	855,000	$ 1.25	855,000	855,000
February 6, 2018 (Note 12)	$ 1.05	2,707,700	2,707,700	$ 1.05	2,755,000	2,755,000
January 23, 2019 (Note 12)	$ 0.60	3,920,000	3,920,000	$ -	-	-
February 5, 2019	$ 0.61	300,000	300,000	$ -	-	-
December 23, 2019	$ 0.90	150,000	150,000	$ -	-	-
		7,932,700	7,932,700		3,720,000	3,720,000

(Expressed in Canadian Dollars)

8. SHARE-BASED PAYMENTS (Continued)

(b) Share-based payments

Share-based payment expenses for the year ended December 31, 2014 totalled $1,880,693 (2013 - $1,699,166). The fair value of stock options was determined using the Black-Scholes option pricing model based on the following assumptions:

For the years ended	2014	2013
Risk-free interest rate	1.59%	1.49%
Expected life of options	5 years	5 years
Expected annualized volatility	78%	77%
Expected dividend yield	0.0%	0.0%
Forfeiture rate	0.0%	0.0%
Share price	$0.61	$0.96

The weighted average fair value of options at measurement date is $0.39 (2013 - $0.59).

Expected volatility is based on historical price volatility to the extent of the expected life of the option.

9. RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended December 31, 2014 and 2013, the Company entered into the following transactions with related parties:

Key management compensation

Key management consists of senior officers and directors of the Company, their compensation is as follows:

	2014	2013
Short-term benefits (included in consulting fees and salaries and benefits)	$ 829,091	$ 539,950
Share-based payments	1,273,496	1,066,373
	$ 2,102,587	$ 1,606,323

Transactions with other related parties

Amount due to a related party of $1,678 (2013 - $Nil) is due to a director of the Company for reimbursement of expenses and included in accounts payable and accrued liabilities. The amount is non-interest-bearing with no fixed terms of repayment.

A short-term advance of $11,064 (2013 - $Nil) to key management for travel is included in prepaid expenses. The amount is non-interest-bearing with no fixed terms of repayment.

(Expressed in Canadian Dollars)

10. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.00% (2013 – 25.75%) to loss before income taxes. The reasons for the differences are as follows:

	2014	2013
Loss before income taxes	$ (4,693,432)	$ (3,540,310)
Statutory income tax rate	26.00%	25.75%
Expected income tax recovery	(1,220,292)	(911,630)
Items not deductible for tax purposes	709,612	454,311
Change in timing differences	1,786,352	2,554,668
Effect of change in tax rates	-	32,119
Under provided in prior years	260	-
Flow-through premium	(1,725,118)	(1,261,017)
Unused tax losses and tax offsets not recognized	76,283	(156,718)
	$ (372,903)	$ 711,733

Effective April 1, 2013, the British Columbia corporate tax rate increased from 10.00% to 11.00% while the federal rate remained unchanged at 15.00%. This has resulted in an increase in the Company's statutory tax rate from 25.75% to 26.00%.

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2014 and 2013 are presented below:

	2014	2013
Deferred income tax liabilities:		
Exploration and evaluation assets	$ (7,755,825)	$ (5,572,959)
Deferred income tax assets:		
Non-capital loss carry-forwards	2,962,125	2,219,495
Marketable securities	106,172	66,450
Property, plant, and equipment	1,571	1,224
Share issuance costs	424,840	376,888
Net deferred income tax liabilities	$ (4,261,117)	$ (2,908,902)

(Expressed in Canadian Dollars)

10. INCOME TAXES (Continued)

The Company recognizes deferred tax assets for tax benefits on losses or other deductible amounts where it is probable the Company will generate sufficient taxable income. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2014	2013
Non-capital loss carry-forwards	$ 598,000	$ 598,000
Capital losses	314,878	695,865
Non-refundable income tax credits	175,340	-
Donations	7,875	-
Unrecognized deferred tax assets	$ 1,096,093	$ 1,293,865

The Company's unused tax losses at December 31, 2014 have the following expiry dates:

2015	$ 598,000
2027	291,000
2028	186,000
2029	155,000
2030	1,167,000
2031	1,873,000
2032	2,403,000
2033	2,466,000
2034	2,852,000
	$ 11,991,000

(Expressed in Canadian Dollars)

11. OTHER LIABILITIES

On issuance, the Company allocates the amount received for flow-through shares as i) capital stock and ii) a flow-through share premium, equal to the estimated premium if any, investors pay for the flow-through feature, which is recognized as a liability. Upon qualifying expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax recovery in income for the amount of tax reduction renounced to the shareholders. Other liabilities include the portion of the premium on flow-through shares that, at period-end, has not been used to incur qualifying exploration expenditures. The following is a continuity schedule of the liability portion of the flow-through share issuances:

Flow-through shares

Balance, December 31, 2012	$	1,165,925
Liability incurred on flow-through shares issued October 17, 2013		522,756
Liability incurred on flow-through shares issued October 30, 2013		40,116
Settlement of flow-through share liability on incurring expenditures		(1,261,017)
Balance, December 31, 2013		467,780
Liability incurred on flow-through shares issued June 20, 2014		954,600
Liability incurred on flow-through shares issued November 6, 2014		4,071,000
Settlement of flow-through share liability on incurring expenditures		(1,725,118)
Balance, December 31, 2014	$	3,768,262

During the year ended December 31, 2014, the Company incurred $8,363,460 of qualified flow-through funded exploration expenditures, which fulfilled its commitment to the flow-through share financings on October 17, 2013, October 30, 2013, and June 20, 2014, and partially fulfilled its commitment to the flow-through share financing on November 6, 2014. As at December 31, 2014, approximately $9,284,124 remains to be incurred on qualifying expenditures during fiscal 2015.

During the year ended December 31, 2013, the Company incurred $8,532,405 of qualified flow-through funded exploration expenditures, which fulfilled the balance of $7,887,136 of its commitment to incur exploration expenditures in relation to the flow-through share financing on October 4, 2012 and partially fulfilled $645,269 of its commitment to the flow-through share financing on October 17, 2013. As at December 31, 2013, approximately $3,102,584 remains to be incurred on qualifying expenditures during fiscal 2014.

12. EVENTS AFTER THE REPORTING PERIOD

(a) On January 2, 2015, 400,000 stock options exercisable at a price of $0.60 per option, 300,000 stock options exercisable at a price of $1.05 per option and 100,000 stock options exercisable at a price of $1.25 per option expired unexercised.

(b) On January 14, 2015, 10,000 stock options exercisable at a price of $1.05 per option expired unexercised.

(c) On January 15, 2015, 60,000 stock options exercisable at a price of $1.25 per option expired unexercised.

(d) On February 2, 2015, the Company agreed to option its N1 and N2 properties to Wealth (Notes 6(a) and (e)).