# SKEENA RESOURCES LIMITED

*(an exploration stage enterprise)*

## Consolidated Financial Statements

## Years ended December 31, 2014 and 2013

*(Expressed in Canadian Dollars)*

SmytheRatcliffe
CHARTERED ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF SKEENA RESOURCES LIMITED

We have audited the accompanying consolidated financial statements of Skeena Resources Limited, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of loss and comprehensive loss, changes in shareholders' 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 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.

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

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

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

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Skeena Resources Limited 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.

*Emphasis of Matter*
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 28, 2015



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

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

**SKEENA RESOURCES LIMITED**
*(an exploration stage enterprise)*
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as at December 31
(expressed in Canadian dollars)

| | Note | **2014** | **2013** |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash | | $ 1,102,073 | $ 24,690 |
| Receivables | | 67,281 | 7,724 |
| Prepaid expenses | | 34,770 | 9,828 |
| | | 1,204,124 | 42,242 |
| **Deposits** | 5 | 20,000 | - |
| **Mineral property interests** | 5 | 6,862,175 | 686,784 |
| **Equipment** | 6 | 4,893 | 11,559 |
| | | $ 8,091,192 | $ 740,585 |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | 7 | $ 264,266 | $ 76,169 |
| Flow-through share premium liability | 9 | 219,360 | - |
| Loans | 7 | - | 342,000 |
| | | 483,626 | 418,169 |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital stock | 8 | 31,191,109 | 21,574,497 |
| Reserves | 8 | 4,425,536 | 3,633,238 |
| Deficit | | (28,009,079) | (24,885,319) |
| | | 7,607,566 | 322,416 |
| | | $ 8,091,192 | $ 740,585 |

Approved on behalf of the Board:

*"Ronald K. Netolitzky"*
……………………………………………………………….. Director
Ronald K. Netolitzky

*"Peter Tredger"*
……………………………………………………………….. Director
Peter Tredger

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

**SKEENA RESOURCES LIMITED**
*(an exploration stage enterprise)*
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
for the years ended December 31
(expressed in Canadian dollars)

| | Note | | **2014** | | 2013 |
|---|---|---|---|---|---|
| **ADMINISTRATIVE EXPENSES** | | | | | |
| Exploration and evaluation | 5 | $ | 1,252,442 | $ | 109,128 |
| Share-based payments | 7 | | 759,495 | | - |
| Consulting | 7 | | 198,285 | | 8,655 |
| Investor relations | | | 115,294 | | - |
| Professional fees | | | 57,060 | | 24,651 |
| Travel | | | 32,535 | | 186 |
| Transfer agent and listing fees | | | 31,876 | | 18,319 |
| Office and administration | | | 28,633 | | 17,920 |
| Rent and administration | | | 15,297 | | 8,961 |
| Shareholder communications | | | 13,046 | | 769 |
| Foreign exchange loss (gain) | | | 10,134 | | (511) |
| Amortization | | | 1,671 | | 3,156 |
| | | | (2,515,768) | | (191,234) |
| Flow-through share premium recovery | 9 | | 83,782 | | - |
| Interest income | | | 4 | | 144 |
| Impairment of mineral property interests | 5 | | (686,784) | | - |
| Loss on disposition of equipment | | | (4,994) | | - |
| Loss on sale of marketable securities | | | - | | (273) |
| **Net loss and comprehensive loss for the year** | | $ | (3,123,760) | $ | (191,363) |
| **Loss per share** | | $ | (0.06) | $ | (0.01) |
| **Weighted average number of common shares outstanding** | | | 49,485,840 | | 25,551,762 |

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

**SKEENA RESOURCES LIMITED**
*(an exploration stage enterprise)*
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in Canadian dollars)

| | Capital Stock | | Reserves | | | | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Options | Warrants | Total Reserves | Deficit | |
| Balance at December 31, 2012 | 25,551,762 | $ 21,574,497 | $ 2,310,023 | $ 1,323,215 | $ 3,633,238 | $ (24,693,956) | $ 513,779 |
| Loss for the year | - | - | - | - | - | (191,363) | (191,363) |
| Balance at December 31, 2013 | 25,551,762 | 21,574,497 | 2,310,023 | 1,323,215 | 3,633,238 | (24,885,319) | 322,416 |
| Mineral property interests | 80,000,000 | 6,000,000 | - | - | - | - | 6,000,000 |
| Debt settlement | 13,893,333 | 1,042,000 | - | - | - | - | 1,042,000 |
| Private placements | 43,930,333 | 3,080,295 | - | - | - | - | 3,080,295 |
| Flow- through share premium | - | (303,142) | - | - | - | - | (303,142) |
| Share-based payments | - | - | 759,495 | - | 759,495 | - | 759,495 |
| Share issue costs | | (202,541) | - | 32,803 | 32,803 | | (169,738) |
| Loss for the year | - | - | - | - | - | (3,123,760) | (3,123,760) |
| Balance at December 31, 2014 | 163,375,428 | $ 31,191,109 | $ 3,069,518 | $ 1,356,018 | $ 4,425,536 | $ (28,009,079) | $ 7,607,566 |

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

**SKEENA RESOURCES LIMITED**
*(an exploration stage enterprise)*
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31
(expressed in Canadian dollars)

| | 2014 | 2013 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss for the year | $ (3,123,760) | $ (191,363) |
| Items not effecting cash | | |
| Amortization | 1,671 | 3,156 |
| Loss on sale of marketable securities | - | 273 |
| Impairment of mineral property interests | 686,784 | - |
| Share-based payments | 759,495 | - |
| Flow-through recovery | (83,782) | - |
| Loss on disposition of equipment | 4,993 | - |
| Changes in non-cash working capital | | |
| Receivables | (59,557) | 680 |
| Prepaid expenses | (24,941) | (1,476) |
| Accounts payable and accrued liabilities | 188,097 | 39,064 |
| Net cash used in operating activities | (1,651,000) | (149,666) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from share issuance | 2,910,557 | - |
| Proceeds from loans | - | 142,000 |
| Net cash provided by financing activities | 2,910,557 | 142,000 |
| **INVESTING ACTIVITIES** | | |
| Mineral property acquisition costs | (162,174) | - |
| Deposits | (20,000) | - |
| Proceeds from the sale of marketable securities | - | 140 |
| Net cash provided by (used in) investing activities | (182,174) | 140 |
| **Change in cash during the year** | 1,077,383 | (7,526) |
| **Cash, beginning of the year** | 24,690 | 32,216 |
| **Cash, end of the year** | $ 1,102,073 | $ 24,690 |

**Supplemental Disclosure with Respect to Cash Flows** (Note 12)

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Skeena Resources Limited (the "Company") is incorporated under the laws of the province of British Columbia, Canada, and its principal business activity is the exploration of mineral properties. The Company's corporate office is located at Suite 611, 675 West Hastings Street, Vancouver, British Columbia V6B 1N2. The Company is in the exploration stage with respect to its mineral property interests and has not, as yet, achieved any commercial production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation. The Company has incurred significant operating losses over the past several years and does not have a current source of revenue or sufficient financial resources to sustain operations in the long term.

The Company continues to be dependent upon its ability to finance its operations and exploration programs through financing activities that may include issuances of additional debt or equity securities. The recoverability of the carrying value of exploration projects and, ultimately, the Company's ability to continue as a going concern, is dependent upon the existence and economic recovery of reserves, the ability to raise financing to complete the exploration and development of the properties, and upon future profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis, all of which are uncertain.

While the Company has been successful in obtaining its required financing in the past, through additional equity and non-arm's length loans, there is no assurance that such financing will be available on favourable terms. An inability to raise additional financing will adversely impact the future assessment of the Company as a going concern. These matters indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

| | | **2014** | | 2013 |
|---|---|---|---|---|
| Working capital (deficiency) | $ | 720,498 | $ | (375,927) |
| Deficit | $ | (28,009,079) | $ | (24,885,319) |

## 2. BASIS OF PRESENTATION

### Statement of Compliance

These consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as available-for-sale ("AFS"), which are stated at their fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

## 2. BASIS OF PRESENTATION (Continued)

### Principles of consolidation

The Board of Directors has approved and authorized the issuance of these consolidated financial statements on April 28, 2015.

These consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, Seeker Resources Corp. ("Seeker"), a British Columbia corporation, and Skeena Mexico S.A. de C.V. ("Skeena Mexico"), a Mexican corporation. All significant intercompany balances and transactions have been eliminated.

### Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated 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 may affect both the period of revision and future periods.

Significant assumptions about the future and other sources of estimated uncertainty that management has made at the consolidated statement of financial position date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

*Critical accounting estimates*

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year and include, but are not limited to, the following:

- Recovery of deferred tax assets

  The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

## 2. BASIS OF PRESENTATION (Continued)

*Critical accounting judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

- Recoverability of mineral property interests

  Assets or cash-generating units ("CGUs") are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's mineral property interests.

  In respect of costs incurred for its mineral property interests, management has determined that acquisition costs that have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, economics assessment/studies, accessible facilities, existing permits and ability to continue development.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Mineral property interests**

Mineral property interests include the purchase price of mineral properties and any costs incurred for mineral properties not classified as exploration and evaluation expenses.

Exploration and evaluation expenses are comprised of costs that are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

All exploration and evaluation expenditures are expensed until properties are determined to contain economically viable reserves. When economically viable reserves have been determined, technical feasibility has been determined and the decision to proceed with development has been approved, the capitalized mineral property interest for that project, and subsequent costs incurred for the development of that project, are capitalized as mining properties, a component of property, plant and equipment.

Development expenditures are net of the proceeds of the sale of ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Mineral property interests (continued)

The costs of removing overburden to access ore are capitalized as pre-production stripping costs and classified as mineral property interests.

### Impairment of long-lived asset

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. 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. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Foreign currencies

The Company, and its subsidiaries, have determined the Canadian dollar to be its functional and reporting currency. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the consolidated statement of financial position date and non-monetary assets and liabilities are translated at the exchange rates in effect at the transaction date. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions. All exchange gains and losses are included in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments

(i) Financial assets

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

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future; it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash is included in this category of financial assets.

*Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate method.

*Held-to-maturity*

Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method. The Company has no assets classified as held-to-maturity.

*Available-for-sale*

AFS financial assets are non-derivatives that are either designated as AFS or not classified in any of the other financial assets categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. The Company has no assets that are classified as AFS.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (continued)

(ii) Financial liabilities

The Company classifies its financial liabilities in the following category:

*Borrowings and other financial liabilities*

Borrowings and 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 the consolidated statement of loss and comprehensive loss over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities and the loan payable.

(iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs for assets or liabilities that are not based on observable market data.

### Provision for closure and reclamation

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. The increase in the provision due to the passage of time is recognized as interest expense.

### Equipment

Equipment is recorded at cost less accumulated depreciation, with depreciation calculated on a declining-balance basis at an annual rate of 30% for computer equipment and 20% for office furniture, field equipment and vehicle.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the consolidated statements of loss and comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized 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, the deferred tax asset is not recognized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### Share-based payments

The Company has a stock option plan that is described in Note 8. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to option reserve. Consideration received on the exercise of stock options is recorded as capital stock and the related option reserve is transferred to capital stock.

### Capital stock

The Company records proceeds from share issuances, net of issue costs. Common shares issued for consideration other than cash, are valued based on their market value at the date the agreement to issue shares was concluded.

### Loss per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on loss per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the year. 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.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Unit offerings**

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

**Flow-through shares**

The Company has financed a portion of its exploration expenditures through the issuance of flow-through shares. Canadian income tax law permits the Company to transfer the tax deductibility of qualifying resource expenditures financed by such shares to the flow-through shareholders.

On issuance, the Company allocates the flow-through share proceeds into i) share capital, ii) warrants and iii) a flow-through share premium, if any, using the residual value method. If investors pay a premium for the flow-through feature, it is recognized as a liability. Upon incurring qualifying expenditures, the Company reduces the liability and recognizes a deferred income tax recovery in income for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision. At the end of a period, the flow-through share premium liability consists of the portion of the premium on flow-through shares that corresponds to the portion of qualifying exploration expenditures that have not yet been incurred.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a prescribed period. The portion of the proceeds received, but not yet expended at the year-end, is disclosed as flow-through share proceeds. See Note 9.

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

**New standards, amendments and interpretations not yet effective**

Certain new standards, interpretations and amendments to existing standards are not yet effective as of December 31, 2014 and have not been applied in preparing these consolidated financial statements. The Company is assessing the impact of this standard on its consolidated financial statements:

*IFRS 9 Financial Instruments (2014)*

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**New standards, amendments and interpretations not yet effective (continued)**

- Impairment. The 2014 version of IFRS 9 introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Applicable to the Company's annual period beginning January 1, 2018.

## 4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash is classified as FVTPL; and accounts payable and accrued liabilities and loan payable, as other financial liabilities. The carrying values of these instruments approximate their fair values due to their short term to maturity.

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

**Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash is exposed to credit risk. The Company manages credit risk, in respect of cash, by placing its cash with major Canadian financial institutions. Management believes that credit risk with respect to receivables is minimal, as the majority consists of amounts due from Canadian governmental agencies.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient cash to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

At December 31, 2014, the Company had cash in the amount of $1,102,073 (2013 - $24,690), accounts payable and accrued liabilities of $264,266 (2013 - $76,169) and loans payable of $nil (2013 - $342,000). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of December 31, 2014.

**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 consists of interest rate risk, foreign currency risk and other price risk. As at December 31, 2014, the Company is not exposed to significant market risk.

## 5. MINERAL PROPERTY INTERESTS

***Spectrum Property, British Columbia, Canada***

On September 24, 2014, the Company acquired all of the issued common shares of Seeker Resources Corp. ("Seeker") for cash considerations of $20,000 and US $40,000. The primary asset acquired was a $20,000 reclamation bond held with the British Columbia Ministry of Energy, Mines and Petroleum Resources for the Spectrum gold and copper exploration property in northwest British Columbia ("Spectrum Property"). The bond allowed the Company to commence its drilling program on the Spectrum Property. The Company recognized the $20,000 as a deposit and expensed the US $40,000 as an exploration and evaluation expenditure. The acquisition has been assessed in accordance with IFRS 3 *Business Combinations*. The acquisition of Seeker does not fulfil the requirements to be accounted for as a business combination; therefore, the acquisition will be accounted for as an asset acquisition.

On October 27, 2014, the Company acquired a 100% interest in the Spectrum Property in exchange for 80,000,000 common shares valued at $6,000,000, of which 64,000,000 common shares were issued to Eilat Exploration Ltd. ("Eilat") and 16,000,000 common shares were issued to Keewatin Consultants (2002) Inc. ("Keewatin"), a private company held by a director, together with an interest-free promissory note payable to Eilat in the amount of $700,000. In connection with the closing of the acquisition, Eilat assigned the promissory note to Keewatin in satisfaction of certain outstanding debt between the parties. The promissory note, along with $342,000 in additional debt outstanding with the Company to Keewatin (note 7), was converted to common shares of the Company pursuant to a debt settlement agreement between the Company and Keewatin, resulting in the issuance of 9,333,333 common shares for the promissory note and 4,560,000 common shares for the debt settlement to Keewatin at a share price of $0.075 per share. The total acquisition cost for the Spectrum Property amounted to $6,862,175, which includes capitalized legal fees of $162,175.

***Tropico Property, Mexico***

In September 2010, the Company acquired a 100% interest in, and clear title to, the Tropico property, in consideration for 800,000 common shares of the Company (issued), valued at $400,000, and five-year warrants (issued), which can be exercised to acquire an additional 800,000 common shares, from Anthem Resources Incorporated, Almaden Minerals Corp. and Minera Cascabel S.A. de C.V, superseding all previous agreements. The total acquisition costs for the Tropico property amounted to $686,784. Mining concession fees due January 31, 2014 and July 31, 2014 remain outstanding and are estimated to be $100,000 with penalties and interest. In addition, mining concession fees due January 31, 2015 remain outstanding. The Company has recognized an impairment loss of $686,784 against the Tropico mineral properties for the year ended December 31, 2014, which has written down the property to $nil. In addition, field equipment was written off.

(expressed in Canadian dollars)

## 5. MINERAL PROPERTY INTERESTS (Continued)

### Exploration and evaluation expenses

| | Spectrum | Tropico | Total |
|---|---|---|---|
| Claim renewals and permits | $ 46,932 | $ 100,000 | $ 146,932 |
| Assays and analysis | 47,713 | 7,321 | 55,034 |
| Drilling | 255,701 | - | 255,701 |
| Fieldwork, camp support and local office | 394,317 | 9,017 | 403,334 |
| Site visits | 5,309 | - | 5,309 |
| Exploration and sampling | 318,785 | - | 318,785 |
| Geology/geophysics/geochemical | 45,897 | - | 45,897 |
| Maps and reports | 21,450 | - | 21,450 |
| Total exploration and evaluation expenses during 2014 | $ 1,136,104 | $ 116,338 | $ 1,252,442 |
| | | | |
| Claim renewals | $ - | $ 87,625 | $ 87,625 |
| Fieldwork and camp support | - | 3,741 | 3,741 |
| Assays and analysis | - | 7,496 | 7,496 |
| Site visits | - | 6,925 | 6,925 |
| Maps and reports | - | 766 | 766 |
| Community relations | - | 2,575 | 2,575 |
| Total exploration and evaluation expenses during 2013 | $ - | $ 109,128 | $ 109,128 |

## 6. EQUIPMENT

| **Cost** | Computer Equipment | Field Equipment | Vehicle | Office Equipment | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2012 | $ 12,229 | $ 20,940 | $ 21,381 | $ 5,945 | $ 60,495 |
| Additions | - | - | - | - | - |
| Balance, December 31, 2013 | 12,229 | 20,940 | 21,381 | 5,945 | 60,495 |
| Disposals | - | (902) | (21,381) | - | (22,283) |
| **Balance, December 31, 2014** | **$ 12,229** | **$ 20,038** | **$ -** | **$ 5,945** | **$ 38,212** |
| **Accumulated Amortization** | | | | | |
| Balance, December 31, 2012 | $ 10,103 | $ 15,882 | $ 15,075 | $ 4,720 | $ 45,780 |
| Additions | 638 | 1,012 | 1,261 | 245 | 3,156 |
| Balance, December 31, 2013 | 10,741 | 16,894 | 16,336 | 4,965 | 48,936 |
| Additions | 446 | 777 | 252 | 196 | 1,671 |
| Disposals | - | (700) | (16,588) | - | (17,288) |
| **Balance, December 31, 2014** | **$ 11,187** | **$ 16,971** | **$ -** | **$ 5,161** | **$ 33,319** |
| **Carrying Value** | | | | | |
| Balance, December 31, 2013 | $ 1,488 | $ 4,046 | $ 5,045 | $ 980 | $ 11,559 |
| **Balance, December 31, 2014** | **$ 1,042** | **$ 3,067** | **$ -** | **$ 784** | **$ 4,893** |

(expressed in Canadian dollars)

## 7. RELATED PARTY TRANSACTIONS

*Key management compensation*

Key management personnel at the Company are the directors and officers of the Company. The remuneration of key management personnel during the years ended December 31, 2014 and 2013 is as follows:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Short-term benefits[1] | $ | 118,892 | $ | 8,655 |
| Share-based payments | $ | 685,907 | $ | - |

Other than the amounts disclosed above, there were no short-term employee benefits or share-based payments granted to key management personnel during the years ended December 31, 2014 and 2013.

[1] Short-term benefits consist exclusively of salaries, bonuses, health benefits if applicable and consulting fees for key management personnel.

*Accounts payable and accrued liabilities*

Included in accounts payable and accrued liabilities at December 31, 2014 is $37,055 (2013 - $25,492) due to directors or officers or companies with common directors or officers.

*Loans*

During the year ended December 31, 2012, the Company arranged a loan totalling $200,000 from Keewatin. The loan is secured by a non-interest-bearing promissory note for consideration of 500,000 shares for a loan fee fair valued at $35,000.

During the year ended December 31, 2013, the Company obtained a loan from Keewatin for $142,000. The loan is non-interest-bearing and due on demand.

On October 27, 2014, pursuant to the Spectrum property acquisition, the total loan of $342,000 was settled by issuing 4,560,000 common shares (Note 5).

*Property acquisition*

On October 27, 2014, pursuant to the Spectrum property acquisition, Keewatin was issued 25,333,333 common shares for its 20% interest in the Spectrum property together with a promissory note for $700,000 owed by Eilat (Note 5).

(expressed in Canadian dollars)

## 8. CAPITAL STOCK AND RESERVES

Authorized - unlimited number of voting common shares without par value.

*Private placements*

On October 27, 2014, the Company issued an aggregate 40,397,000 units for proceeds of $2,550,295, each unit consisting of 25,295,000 flow-through units at a price of $0.065 per unit, consisting of one flow-through common share and one share purchase warrant; and 15,102,000 units at a price of $0.06 per unit, consisting of one non-flow-through common share and one share purchase warrant, with each whole warrant exercisable to acquire one non-flow-through share at $0.10 until October 27, 2016. The Company paid a total of $118,968 in share issuance costs. In relation to the financing, 1,218,268 broker warrants were issued with a fair value of $32,803, exercisable at $0.10 per unit for one year.

On December 29, 2014, the Company issued 3,533,333 flow-through common shares for proceeds of $530,000. The Company paid a total of $50,770 in share issuance costs.

*Stock options and warrants*

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant. The options can be granted for a maximum term of five years and vest at the discretion of the Board of Directors.

*Share-based payments*

On November 6, 2014 the Company granted 13,900,000 stock options to directors, officers and consultants, exercisable at $0.10 per option until November 6, 2019. The options were valued using the Black-Scholes option pricing model and have a fair value of $759,495. Stock option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

| | **2014** |
|---|---|
| Risk-free interest rate | 1.56% |
| Expected life | 5 years |
| Annualized volatility | 119.84% |
| Dividend rate | 0.00% |
| Fair value at grant date | $0.07 |

(expressed in Canadian dollars)

**8. CAPITAL STOCK AND RESERVES (Continued)**

*Escrow shares*

Under the policies of the TSX Venture Exchange (the "Exchange"), an aggregate of 98,010,071 common shares, 400,000 incentive stock options and 200,000 warrants to purchase common shares held by insiders of the Company were deposited with Computershare Investor Services Inc. as escrow agent to be released over a 36 month period; 10% were released October 17, 2014. The common shares held by Eilat and Keewatin are further subject to a pooling agreement that includes a voting trust over such shares, which will be controlled by the Company's chairman. Throughout the pooling period, the Company retains a right-of-first-offer to find a purchaser, at the prevailing volume-weighted average price on the Exchange, with respect to sales of blocks of common shares having a value of more than $250,000. The number of escrow common shares as at December 31, 2014 is 89,116,607.

Stock option and share purchase warrant transactions are summarized as follows:

| | Warrants | | | Stock Options | | |
|---|---|---|---|---|---|---|
| | Number | | Weighted Average Exercise | Number | | Weighted Average Exercise |
| Outstanding, December 31, 2012 | 800,000 | $ | 2.50 | 1,455,000 | $ | 0.65 |
| Expired/cancelled | - | | - | (250,000) | $ | (1.46) |
| Outstanding, December 31, 2013 | 800,000 | $ | 2.50 | 1,205,000 | $ | 0.51 |
| Expired/cancelled | - | | - | (480,000) | $ | (0.50) |
| Issued/granted | 41,615,268 | $ | 0.10 | 13,900,000 | $ | 0.10 |
| Outstanding, December 31, 2014 | 42,415,268 | $ | 0.15 | 14,625,000 | $ | 0.12 |
| Number exercisable, December 31, 2014 | 42,415,268 | $ | 0.15 | 14,400,000 | $ | 0.12 |

The weighted average remaining contractual life of the stock options is 4.65 (2013 -1.29) years.

(expressed in Canadian dollars)

## 8. CAPITAL STOCK AND RESERVES (Continued)

As at December 31, 2014, incentive stock options and share purchase warrants were outstanding as follows:

| | Number | | Exercise Price | Expiry Date |
|---|---|---|---|---|
| **Options** | 50,000 | $ | 0.75 | January 11, 2015 |
| | 675,000 | $ | 0.50 | September 22, 2015 |
| | 13,900,000 | $ | 0.10 | November 6, 2019 |
| | 14,625,000 | $ | 0.12 | |
| **Warrants** | 800,000 | $ | 2.50 | September 1, 2015 |
| | 40,397,000 | $ | 0.10 | October 27, 2016 |
| | 1,218,268 | $ | 0.10 | October 27, 2015[1] |
| | 42,415,268 | $ | 0.15 | |

[1] In the event that the Company's common shares trade for a period of 20 consecutive days at a volume-weighted average price of $0.15 per share or greater, the Company may elect to accelerate the expiry date of the warrants to a date that is 60 days from the date that notice is provided to the warrant holders.

## 9. FLOW-THROUGH SHARE PREMIUM LIABILITY

The following is a continuity schedule of the liability portion of the flow-through share issuances:

| | | |
|---|---|---|
| Balance at December 31, 2013 | $ | - |
| Flow-through share premium liability | | 303,142 |
| Settlement of flow-through share premium liability pursuant to qualified expenditures | | (83,782) |
| **Balance at December 31, 2014** | $ | 219,360 |

As a result of the issuances of flow-through shares on October 27, 2014 and December 17, 2014, the Company has a commitment to incur $2,174,175 in qualifying Canadian exploration expenditures on or before December 31, 2015. As of December 31, 2014, the remaining commitment is $1,106,453.

## 10. CAPITAL RISK MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral 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 defines capital as shareholders' equity. The Company is not exposed to any capital requirements.

(expressed in Canadian dollars)

## 10. CAPITAL RISK MANAGEMENT (Continued)

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company has historically relied on the equity markets to fund its activities. 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. There were no changes to the Company's capital risk management approach in the year ended December 31, 2014.

## 11. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and exploration of mineral properties. Geographic information is as follows:

| | **2014** | 2013 |
|---|---|---|
| Mineral property interests and equipment: | | |
| Canada | $ 6,867,068 | $ 6,302 |
| Mexico | - | 692,041 |
| | $ 6,867,068 | $ 698,343 |

## 12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

| | **2014** | 2013 |
|---|---|---|
| Issuance of shares to settle loans | $ 1,042,000 | $ - |
| Issuance of shares for mineral property interests | $ 6,000,000 | $ - |
| Interest paid | $ - | $ - |
| Income taxes paid | $ - | $ - |

(expressed in Canadian dollars)

## 13. 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 income before income taxes. The reasons for the differences are as follows:

| | **2014** | 2013 |
|---|---|---|
| Loss for the year | $ (3,123,760) | $ (191,363) |
| Statutory income tax rate | 26.00% | 25.75% |
| Expected income tax benefit | (812,178) | (49,276) |
| Items not deductible for income tax purposes | 197,941 | 88 |
| Difference between Canadian and foreign tax rates | (298) | (3,727) |
| Changes in timing differences | 1,488,546 | (1,882) |
| Effect of change in tax rate | (4,132) | (74,478) |
| Impact of foreign exchange on tax assets and liabilities | 19,162 | (23,534) |
| Unrecognized benefit of deferred tax assets | (889,041) | 152,809 |
| Income tax expense | $ - | $ - |

Effective April 1, 2013, the British Columbia corporate tax rate increased from 10.00% to 11.00%, and the Canadian federal corporate tax rate remained unchanged at 15.00%. The overall increase in tax rates 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 tax assets | | |
| Non-capital losses carried forward | $ 103,283 | $ - |
| Deferred tax liabilities | | |
| Resource properties | (103,283) | - |
| Net deferred tax assets | $ - | $ - |

(expressed in Canadian dollars)

## 13. INCOME TAXES (Continued)

The Company recognizes tax benefits on losses or other deductible amounts generated in countries should the Company have sufficient future 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 |
|---|---|---|
| Equipment | $ 43,113 | $ 37,492 |
| Share issuance costs | 151,323 | 30,369 |
| Mineral property interests | - | 3,669,992 |
| Capital losses | 120,881 | 120,879 |
| Cumulative eligible capital | - | 6,000 |
| Non-capital losses carried forward | 4,675,003 | 4,847,792 |
| Unrecognized deductible temporary differences | $ 4,990,320 | $ 8,712,524 |

The Company's unrecognized unused non-capital tax losses have the following expiry dates:

| | Canada | Mexico | Ecuador |
|---|---|---|---|
| 2015 | $ 168,000 | $ - | $ 7,000 |
| 2018 | - | 2,189,000 | - |
| 2020 | - | 16,000 | - |
| 2021 | - | 53,000 | - |
| 2026 | 217,000 | - | - |
| 2027 | 435,000 | - | - |
| 2028 | 337,000 | - | - |
| 2029 | 286,000 | - | - |
| 2030 | 373,000 | - | - |
| 2031 | 301,000 | - | - |
| 2032 | 150,000 | - | - |
| 2033 | 119,000 | - | - |
| 2034 | 571,000 | - | - |
| | $ 2,957,000 | $ 2,258,000 | $ 7,000 |

## 14. CONTINGENCY

Due to the nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. Eilat has on a number of occasions asserted certain claims against the Company pertaining to the Asset Purchase Agreement dated April 14, 2014 and on April 27, 2015. To avoid the possible risk of selective disclosure, the Company is disclosing the existence of the claims regardless of the fact that the Company considers that the claims have no merit and that it has not received any formal notice of claim with respect to any litigation that has been commenced by Eilat. In the opinion of management, those matters will not have a material effect on the consolidated financial statements of the Company.

## 15. SUBSEQUENT EVENT

The Company granted 600,000 incentive stock options subsequent to the year-end to an officer, exercisable at $0.10 for five years.