# Consolidated Financial Statements of

ORACLE
MINING CORP.

December 31, 2014 and 2013

# Oracle Mining Corp.
December 31, 2014 and 2013

## Table of contents

Deloitte LLP
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

Tel: 604-669-4466
Fax: 778-374-0496
www.deloitte.ca

# Independent Auditor's Report

To the Shareholders of
Oracle Mining Corp.

We have audited the accompanying consolidated financial statements of Oracle Mining Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements 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 consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oracle Mining Corp as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years 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 indicates that the Company incurred a loss from operations of $6.6 million during the year ended December 31, 2014 (2013 - $13.2 million) and had a net working capital deficiency of $4.8 million as at December 31, 2014 (2013 - $5.0 million). These conditions, along with other matters as set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Deloitte LLP

Chartered Accountants
March 31, 2015
Vancouver, Canada

# Oracle Mining Corp.

## Consolidated statements of operations and comprehensive loss
## years ended December 31, 2014 and 2013

(In thousands of US dollars, except share and per share amounts)

| | 2014 | 2013 |
|---|---|---|
| | **$** | $ |
| **Operating costs** | | |
| General and administration expenses (Note 14) | **1,882** | **4,451** |
| Exploration and evaluation expenditures (Note 15) | **2,540** | **8,580** |
| Loss from operations | **4,422** | **13,031** |
| Other expenses (income) | | |
| Foreign exchange loss (gain) | **69** | **(212)** |
| Financing charges | **13** | **150** |
| Interest expense | **2,443** | **139** |
| Loss on sale of equipment | **3** | **26** |
| Writeoff of mineral properties (Note 5(b)) | **-** | **65** |
| Realized loss on marketable securities | **-** | **22** |
| Gain on forgiveness of debt | **(106)** | **-** |
| Unrealized gain on derivative liability (Note 8) | **(199)** | **(41)** |
| Unrealized gain on share purchase warrants (Note 8) | **(71)** | **-** |
| Other | **19** | **18** |
| Loss before taxes | **6,593** | **13,198** |
| Income taxes (Note 16) | **-** | **-** |
| **Net loss** | **6,593** | **13,198** |
| **Other comprehensive (income) loss** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translating foreign operations | **(682)** | **297** |
| | **(682)** | **297** |
| **Total other comprehensive loss** | **5,911** | **13,495** |
| Loss per share | | |
| Basic and diluted | **0.13** | **0.27** |
| Weighted average number of shares outstanding | | |
| Basic and diluted | **49,649,151** | **49,034,070** |

# Oracle Mining Corp.
## Consolidated statements of financial position
## as at December 31, 2014 and 2013
(In thousands of US dollars)

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **3,229** | 324 |
| Prepaid expenses | **49** | 49 |
| Receivables (Note 3) | **107** | 453 |
| Total current assets | **3,385** | 826 |
| | | |
| Non-current assets | | |
| Equipment (Note 4) | **430** | 699 |
| Mineral properties (Note 5) | **14,167** | 14,111 |
| Reclamation bond (Note 6) | **831** | 831 |
| Total assets | **18,813** | 16,467 |
| | | |
| **Liabilities** | | |
| Current liabilities | | |
| Trade and other payables | **598** | 2,472 |
| Convertible notes payable (Note 7) | **7,311** | 2,933 |
| Derivative liability (Note 8) | **164** | 376 |
| Share purchase warrants (Note 8) | **64** | - |
| Total current liabilities | **8,137** | 5,781 |
| | | |
| Non-current liabilities | | |
| Promissory note payable (Note 7) | **293** | - |
| Reclamation provision (Note 9) | **445** | 396 |
| Other long-term liabilities | **305** | 305 |
| Total liabilities | **9,180** | 6,482 |
| | | |
| **Equity** | | |
| Issued capital (Note 13(b)) | **87,010** | 86,597 |
| Warrant reserve (Note 7) | **2,432** | 2,432 |
| Share-based payment reserve (Note 13(d)) | **7,352** | 7,211 |
| Debt Reserve (Note 7) | **5,005** | - |
| Foreign currency translation reserve | **1,418** | 736 |
| Deficit | **(93,584)** | (86,991) |
| Total equity | **9,633** | 9,985 |
| Total liabilities and equity | **18,813** | 16,467 |

Nature of operations and going concern (Note 1)
Contingencies and commitments (Note 18)

Approved and authorized for issue by the Directors on March 31, 2015

***(Signed) Kevin Drover***
Kevin Drover, Director

***(Signed) Michel Tardif***
Michel Tardif, Director

# Oracle Mining Corp.

## Consolidated statements of changes in equity

(in thousands of US dollars,except share amounts)

| | Issued capital | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Warrant reserve | Share-based payment reserve | Debt Reserve | Foreign currency translation reserve | Deficit | **Total** |
| | | $ | $ | $ | $ | $ | $ | **$** |
| **At December 31, 2012** | 49,034,070 | 86,597 | 2,432 | 6,961 | - | 1,033 | (73,793) | **23,230** |
| Total comprehensive loss | | | | | | | | |
| Net loss | - | - | - | - | - | - | (13,198) | **(13,198)** |
| Other comprehensive loss | - | - | - | - | - | (297) | - | **(297)** |
| Total comprehensive loss | - | - | - | - | - | (297) | (13,198) | **(13,495)** |
| Share-based payment expense (Note 13(d)) | - | - | - | 250 | - | - | - | **250** |
| **At December 31, 2013** | 49,034,070 | 86,597 | 2,432 | 7,211 | - | 736 | (86,991) | 9,985 |
| Total comprehensive loss | | | | | | | | |
| Net loss | - | - | - | - | - | - | (6,593) | **(6,593)** |
| Other comprehensive gain | - | - | - | - | - | 682 | - | **682** |
| Total comprehensive loss | - | - | - | - | - | 682 | (6,593) | **(5,911)** |
| Shares issued on convertible debt | 16,036,035 | 413 | - | - | - | - | - | **413** |
| Share-based payment expense (Note 13(d)) | - | - | - | 141 | - | - | - | **141** |
| Gain on debt extinguishment (Note 7) | - | - | - | - | 5,005 | - | - | **5,005** |
| **At December 31, 2014** | 65,070,105 | 87,010 | 2,432 | 7,352 | 5,005 | 1,418 | (93,584) | **9,633** |

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows
years ended December 31, 2014 and 2013
(in thousands of US dollars)

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net loss | (6,593) | (13,198) |
| Items not affecting cash | | |
| Realized loss on marketable securities | - | 22 |
| Unrealized gain on mark to market derivative liability (Note 8) | (199) | (41) |
| Unrealized gain on mark to market share purchase warrant (Note 8) | (71) | - |
| Share-based payment expense (Note 13(d)) | 141 | 250 |
| Unrealized foreign exchange loss | 12 | 3 |
| Depreciation (Note 4) | 252 | 265 |
| Writeoff of mineral properties (Note 5(b)) | - | 65 |
| Loss on sale of equipment | 3 | 26 |
| Interest expense on convertible notes payable | 71 | 198 |
| Other | 13 | 7 |
| | (6,371) | (12,403) |
| Net changes in non-cash components of working capital (Note 19) | (1,170) | 260 |
| | (7,541) | (12,143) |
| **Financing activities** | | |
| Repayment of promissory note (Note 7(a)) | - | (700) |
| Interest paid on promissory note (Note 7(a)) | - | (20) |
| Issuance of convertible note (Note 7) | 10,367 | 3,211 |
| | 10,367 | 2,491 |
| **Investing activities** | | |
| Proceeds from sale of marketable securities | - | 216 |
| Additions to mineral properties (Note 5) | (19) | (39) |
| Reclamation bond (Note 6) | - | (831) |
| Additions to equipment (Note 4) | (1) | (63) |
| Disposals of equipment | 9 | 2 |
| | (11) | (715) |
| Effect of exchange rate changes on cash and cash equivalents | 90 | (360) |
| Net change in cash and cash equivalents | 2,905 | (10,727) |
| Cash and cash equivalents, beginning of year | 324 | 11,051 |
| **Cash and cash equivalents, end of year** | 3,229 | 324 |
| Cash and cash equivalents consist of: | | |
| Cash | 3,212 | 306 |
| Short-term deposits | 17 | 18 |
| | 3,229 | 324 |
| Interest paid | (1,905) | - |

## 1. Nature of operations and going concern

Oracle Mining Corp. (the "Company" or "Oracle Mining") is listed on the TSX under the symbol "OMN". The Company is incorporated under the Canada Business Corporations Act and is a reporting issuer under the jurisdictions of British Columbia, Alberta, Ontario and Quebec. The Company is engaged in the acquisition, exploration and development of mineral resource projects.

The Company's head office, principal address and registered office is #1500-888 Dunsmuir St., Vancouver, British Columbia, V6C 3K4.

In September 2010, the Company acquired the Oracle Ridge copper property near Tucson, Arizona. The Company has started exploration and rehabilitation activities on this property. In accordance with the Company's accounting policy (Note 2(h)), all exploration and evaluation expenditures are expensed until such time as a technical feasibility study has been completed and commercial viability is demonstrable.

These consolidated financial statements are prepared on the basis of a going concern which assumes the realization of assets and satisfaction of liabilities in the normal course of business. During the year ended December 31, 2014, the Company incurred a net loss of $6,593,000 (2013 - $13,198,000) and had cash outflows from operations of $7,541,000 (2013 - $12,143,000). As at December 31, 2014, the Company had a working capital deficiency of $4,752,000 (2013 – $4,955,000) and an accumulated deficit of $93,584,000 (2013 - $86,991,000).

The Company's current plans are to continue to minimize expenses while performing the necessary work to advance the Oracle Ridge project. On December 17, 2014, the Company restructured its CAD$10,180,000 Loan Facility with Rich Stone Mining Investments (Hong Kong) Limited (Refer to Note 7(b) for further details) and simultaneously closed a minimum aggregate amount of US$6,700,000 Loan Facility with Vincere Resources Holding LLC (Refer to Note 7(c) for further details) which provided the Company with net working capital of approximately CAD$4,700,000 to continue to develop the Oracle Ridge Project. As at December 31, 2014, the Company does not have the financial capacity to repay the Loan Facilities due December 17, 2015. Raising significant additional funding will be required to repay the outstanding principal and interest of the Loan Facilities. The continuation of the Company as a going concern is dependent on its ability to obtain necessary financing to satisfy liabilities as they come due, complete exploration and development activities on the Oracle Ridge project and ultimately to achieve profitable operations. While the Company has been successful in raising capital in the past, there is no assurance it will be successful in closing transactions in the future. If the Company is unable to obtain adequate financing, the Company will need to further curtail operations and exploration activities. These conditions and matters indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern and these adjustments could be material.

## 2. Summary of significant accounting policies

### *(a) Basis of preparation*

These consolidated financial statements, including comparatives, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS").

(In US$, tabular amounts in thousands, unless otherwise noted)

**2. Summary of significant accounting policies (continued)**

The Company’s accounting policies have been applied consistently in preparing these consolidated financial statements for the year ended December 31, 2014, and the comparative information as at December 31, 2013

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, warrants, and share-based compensation measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The Board of Directors approved these consolidated financial statements for issue on March 31, 2015.

*(b) Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company’s principal subsidiaries are as follows:

| Name | Country of incorporation | Ownership interest |
|---|---|---|
| 0830438 B.C. Ltd. | Canada | 100% |
| Oracle Ridge Mining LLC | USA | 100% |

All intra-company transactions, balances, income and expenses are eliminated on consolidation.

*(c) Foreign currencies*

The consolidated financial statements are presented in United States ("US") dollars. The functional currency of Oracle Mining is the Canadian dollar. The functional currency of Oracle Ridge Mining LLC and 0830438 B.C. Ltd. is the US dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effect of Changes in Foreign Exchange Rates*.

These consolidated financial statements have been translated to the US dollar in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. This standard requires that assets and liabilities be translated using the exchange rate at period end, and income and expenses be translated using the exchange rates at the dates of the transactions (where there is not significant fluctuation in the exchange rates used, the average rate for the period is applied to income and expense balances). The exchange differences are recognized as a component of other comprehensive income in the statement of comprehensive loss.

Transactions in currencies other than the entity’s functional currency are recorded at the rates

**2. Summary of significant accounting policies (continued)**

*(c) Foreign currencies (continued)*

of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the rate on which the transaction took place.

*(d) Financial instruments*

Financial assets and liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets and liabilities are measured at fair value plus transaction costs, except for those financial assets and liabilities classified as fair value through profit or loss, which are initially measured at fair value.

(i) Financial assets

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

- Fair value through profit or loss ("FVTPL") - This category comprises derivatives, assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or assets designated upon initial recognition as FVTPL. These financial assets are carried in the statement of financial position at fair value with changes in fair value recognized as a component of net loss in the statement of comprehensive loss.

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

- Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial

**2. Summary of significant accounting policies (continued)**

*d) Financial instruments (continued)*

(i) Financial assets (continued)

asset is measured at the present value of estimated future cash flows discounted at the entity's original effective interest rate. Any changes to the carrying amount of the investment, including impairment losses, are recognized as a component of net loss in the statement of comprehensive loss.

- Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity and as a component of other comprehensive income in the statement of comprehensive loss. Where a prolonged or loss is removed from equity and recognized as a component of net loss in the statement of comprehensive loss.

All financial assets, except for those recorded at FVTPL, are subject to review for impairment at least at each reporting date. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

(ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was assumed. The Company's accounting policy for each category is as follows:

- FVTPL - This category comprises derivatives, liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term or liabilities designated upon initial recognition as FVTPL. These financial liabilities are carried in the statement of financial position at fair value with changes in fair value recognized as a component of net loss in the statement of comprehensive loss.

- Other financial liabilities - Other financial liabilities are measured at amortized cost, using the effective interest method.

(iii) Classification of financial instruments

The Company's financial instruments consist of the following:

| Instrument | Classification | Measurement basis |
|---|---|---|
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Marketable securities | FVTPL | Fair value |
| Other receivables | Loans and receivables | Amortized cost |
| Trade and other payables | Other liabilities | Amortized cost |
| Promissory note | Other liabilities | Amortized cost |
| Convertible note payable | Other liabilities | Amortized cost |
| Derivative liability | FVTPL | Fair value |
| Reclamation bond | Loans and receivables | Amortized cost |
| Other long-term liabilities | Other liabilities | Amortized cost |

**2. Summary of significant accounting policies (continued)**

*(e) Cash and cash equivalents*

The Company considers cash to be cash on deposit and cash equivalents to be highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

*(f) Equipment*

Equipment is recorded at cost less accumulated depreciation and impairment losses, if any, and is depreciated using the straight-line method over the following periods:

| | |
|---|---|
| Leasehold improvements | Term of lease |
| Furniture | 5 years |
| Computer equipment | 4 years |
| Site equipment | 5 years |

Depreciation of mobile equipment as well as machinery and equipment used directly in exploration or development projects are included in exploration and evaluation costs. Where an item of equipment comprises significant components with different useful lives, the components are accounted for as separate items of equipment and depreciated over their useful life.

Borrowing costs directly associated with the construction or acquisition of qualifying assets are capitalized at interest rates relating to borrowings specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of group borrowings is utilized. Capitalization of borrowing costs ceases when the asset is available for use.

All other borrowing costs are expensed when incurred.

The depreciation method, useful life and residual values are assessed at least annually.

*(g) Impairment of non-financial assets*

Non-financial assets are reviewed for impairment at the end of each reporting period and throughout the year if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether an impairment exists. Where the asset does not generate cash inflows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset or cash-generating unit's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in profit or loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized.

**2. Summary of significant accounting policies (continued)**

*(h) Mineral properties*

The cost of a property acquired as an individual asset purchase or as part of a business combination represents the property's fair value at the date of acquisition. This cost is capitalized until the viability of the mining property is determined. If it is determined that a property is not economically viable, the amount capitalized is written off which includes expenditures which were capitalized to the carrying amount of the property subsequent to its acquisition.

The Company expenses all costs relating to the exploration for and evaluation of mineral claims until such time as a technical feasibility study has been completed and commercial viability of extracting the mineral resources is demonstrable. Such costs include, but are not limited to, geological, geophysical studies, exploratory drilling and sampling. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation expenses attributable to that area of interest will be capitalized to mineral properties. Costs will continue to be capitalized until the property to which they relate is ready for its intended use, sold, abandoned or management has determined there is impairment. If economically recoverable reserves are developed, capitalized costs of the property are depleted using the units of production method.

The Company capitalizes land purchase costs related to mineral properties.

*(i) Income taxes*

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case income tax is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the balance sheet liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities in a transaction that affects neither accounting or taxable loss and is not a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

**2. Summary of significant accounting policies (continued)**

*(j) Share-based payment transactions*

The share option plan allows the Company's employees and consultants to acquire shares of the Company. Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of options granted to employees is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured for each tranche at grant date and is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted and management's estimate of forfeitures. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

*(k) Reclamation provision*

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral interest. Such costs arising from the decommissioning of equipment and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset and the environment in which the mine operates.

Pre-tax discount rates that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

**2. Summary of significant accounting policies (continued)**

*(l) Provisions*

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

*(m) Leases*

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recognized at the lower of the fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

*(n) Loss per share*

The Company presents the basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding for the year, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period. During years ended December 31, 2014 and 2013, all outstanding stock options and warrants were anti-dilutive.

*(o) Significant accounting judgments*

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (Note 2 (p)), that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are related to the economic recoverability of the mineral properties, the determination of functional currency for the Company and its subsidiaries and the assumption that the Company will continue as a going concern.

**2. Summary of significant accounting policies (continued)**

*(p) Significant accounting estimates*

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include 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 the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the 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:

- impairment of non-financial assets including equipment and mineral properties;
- the estimated useful lives of equipment and the related depreciation;
- the inputs used in accounting for share-based compensation expense;
- the inputs used in accounting for the fair value of warrants; and
- the inputs used in accounting for the convertible note payable and derivative liability and the related unrealized gain on derivative liability.

*(q) New accounting standards and interpretations*

The following standard was effective for the Company on January 1, 2014. There was no material impact on the consolidated financial statements arising from the implementation of this standard.

- *IFRIC 21, Levies*: IFRIC 21 is an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

(In US$, tabular amounts in thousands, unless otherwise noted)

**2. Summary of significant accounting policies (continued)**

*(q) New accounting standards and interpretations (continued)*

- The IASB made certain amendments to the following IFRSs and IASs effective January 1, 2014:

  *IFRS 10, Consolidated Financial Statements*

  *IFRS 12, Disclosure of Interests in Other Entities*

  *IAS 27, Separate Financial Statements*

  *IAS 32*, *Financial Instruments: Presentation*

  *IAS 36*, *Impairment of Assets*

  *IAS 39, Financial Instruments: Recognition and Measurement*

There was no impact on the Company's consolidated financial statements as a result of the amendments.

The following standards will become effective in 2018 as noted below:

- *IFRS 9, Financial Instruments*. In July 2014, the IASB issued the final version of IFRS 9 to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS provides a revised model for recognition and measurement of financial instruments and a single forward-looking 'expected loss' impairment model. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

**3. Receivables**

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| | **$** | $ |
| Value added taxes recoverable | **21** | 95 |
| Deposits and advances | **86** | 358 |
| | **107** | 453 |

(In US$, tabular amounts in thousands, unless otherwise noted)

## 4. Equipment

| | Leasehold Improvements | Furniture | Computer Equipment | Site Equipment | **Total** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** |
| *Cost* | | | | | |
| December 31, 2012 | 34 | 121 | 226 | 888 | **1,269** |
| Additions | 17 | 3 | 3 | 40 | **63** |
| Disposals | - | (46) | (6) | - | **(52)** |
| Foreign exchange movement | (3) | (5) | (7) | - | **(15)** |
| December 31, 2013 | 48 | 73 | 216 | 928 | **1,265** |
| Additions | - | 1 | - | - | **1** |
| Disposals | (13) | - | - | - | **(13)** |
| Foreign exchange movement | (3) | (7) | (9) | - | **(19)** |
| December 31, 2014 | 32 | 67 | 207 | 928 | **1,234** |

| | Leasehold Improvements | Furniture | Computer Equipment | Site Equipment | **Total** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** |
| *Accumulated depreciation* | | | | | |
| December 31, 2012 | 31 | 39 | 68 | 193 | **331** |
| Depreciation | 6 | 22 | 55 | 182 | **265** |
| Disposals | - | (21) | (1) | - | **(22)** |
| Foreign exchange movement | (2) | (4) | (2) | - | **(8)** |
| December 31, 2013 | 35 | 36 | 120 | 375 | **566** |
| Depreciation | - | 14 | 52 | 186 | **252** |
| Disposals | (2) | - | - | - | **(2)** |
| Foreign exchange movement | (3) | (3) | (6) | - | **(12)** |
| December 31, 2014 | 30 | 47 | 166 | 561 | **804** |

| | Leasehold Improvements | Furniture | Computer Equipment | Site Equipment | **Total** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** |
| *Carrying amounts* | | | | | |
| At December 31, 2013 | 13 | 37 | 96 | 553 | **699** |
| December 31, 2014 | 2 | 20 | 41 | 367 | **430** |

(In US$, tabular amounts in thousands, unless otherwise noted)

**5. Mineral properties**

| | Oracle Ridge Copper Project (a) | Copper Moon Property (b) | Total |
|---|---|---|---|
| | $ | $ | $ |
| December 31, 2012 | 13,924 | 45 | 13,969 |
| Option payment (iii) | 19 | 20 | 39 |
| Change in reclamation costs | 168 | - | 168 |
| Mineral property writeoff | - | (65) | (65) |
| December 31, 2013 | 14,111 | - | 14,111 |
| Option payment (iii) | 19 | - | 19 |
| Change in reclamation costs | 37 | - | 37 |
| **December 31, 2014** | **14,167** | **-** | **14,167** |

(a) Oracle Ridge copper project

On September 28, 2010, the Company completed the acquisition of the Oracle Ridge copper property through the purchase of all the outstanding common shares of 0830438 B.C. Ltd. and its wholly-owned subsidiary, Oracle Ridge Mining LLC.

*(i) Net Smelter Return Royalty (the "NSR Royalty")*

In November 2012, the Company entered into a royalty agreement, an offtake agreement and a concurrent private placement (collectively the "Investment Agreements") with MF2 Investment Company 1LP, Bermuda LP ("MF2"). Pursuant to the terms of the Investment Agreements, the Company completed a private placement of 9,800,000 units, agreed to sell 100% of the Oracle Ridge copper project's future copper production to MF2 at market prices and completed the sale of a 3% NSR Royalty on the Oracle Ridge copper property, for aggregate net proceeds of $17,610,000, after reduction for various fees specified in the Investment Agreements.

*(ii) Land Exchange Agreement ("Exchange Agreement")*

In December 2012, the Company entered into an Exchange Agreement with Pima County of Arizona (the "County"). Under the terms of the Exchange Agreement, the Company agreed to exchange land that it had purchased from a third party (the "Exchange Property") for land owned by the County. The County land provides key access between the mine site and tailings area.

The Company purchased the Exchange Property for a total price of $1,700,000 of which $1,000,000 was paid in cash and $700,000 issued in the form of a promissory note payable as described in Note 7(a). The Company also incurred approximately $6,000 in transaction costs which has been capitalized to the property. During 2013, the Company repaid the balance of the promissory note including accrued interest.

*(iii) Option Payment*

In August 2011, the Company entered into an operating lease agreement for additional land adjacent to the Oracle Ridge copper property. The lease is for a term of 15 years and requires annual payments of $19,200 with two additional five year option periods on similar terms. The Company paid an initial non-refundable payment of $57,600 upon execution of the lease. During the year, the Company paid the annual lease payment of $19,200 (2013 - $19,200).

(In US$, tabular amounts in thousands, unless otherwise noted)

**5. Mineral properties (continued)**

(a) Copper Moon Property

In June 2011, the Company entered into an option agreement to acquire a 100% interest in a mineral property in Colorado, USA. Under the terms of the agreement, the Company is required to make the following payments to keep the option in good standing: a cash payment of $20,000 on or before June 29, 2012 (paid), a cash payment of $20,000 on or before June 29, 2013 (paid), and a cash payment of $500,000 on or before June 29, 2014. On December 31, 2013, the Company decided that it did not plan on paying the final option payment of $500,000 on June 29, 2014. Therefore, the Company wrote-off the entire balance of the mineral property in the amount of $65,000 in 2013.

**6. Reclamation Bond**

In March 2013, an amended Aquifer Protection Permit ("APP") was granted to the Company by the Arizona Department of Environmental Quality ("ADEQ"). The Company posted financial assurance in the amount of $2,077,000 as a requirement to receive the amended APP. Financial assurance was provided through the issuance of a surety bond by a third-party insurer requiring a collateral deposit of $830,800 from the Company, on 40% of the overall value of the financial assurance.

**7. Notes Payable**

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| | **$** | $ |
| Maturity analysis of notes payable: | | |
| Current: | | |
| Convertible note payable, related to Rich Stone Loan Facility (Note 7(b)) | **2,510** | 2,933 |
| Convertible note payable, related to Vincere Loan Facility (Note 7(c)) | **4,801** | - |
| Total Current | **7,311** | **2,933** |
| Non-current: | | |
| Promissory note payable (Note 7(d)) | **293** | - |
| | **7,604** | **2,933** |

(a) As part of the Exchange Agreement (Note 5) in 2012, the Company issued a promissory note that matured on December 21, 2013 and bore interest at US prime rate.

In November 2013, the Company paid the full outstanding balance of the promissory note payable plus accrued interest of $720,260.

(b) On November 12, 2013, the Company closed (the "Initial Closing") the initial tranche of approximately C$3.0 million of a secured convertible loan facility (the "Rich Stone Loan Facility") for up to an aggregate principal of C$10.0 million with Rich Stone Mining Investment (Hong Kong) Limited ("Rich Stone"). The balance of the first tranche (approximately C$1.0 million) was received by the Company on November 21, 2013. An origination fee of C$240,000 was paid to Rich Stone relating to the initial tranche of the Loan Facility.

**7. Notes Payable (continued)**

The initial tranche of the Rich Stone Convertible Note is a hybrid financial instrument (Note 8), containing a debt component and a derivative component. The debt component was measured at amortized cost and is accreted over the expected term to maturity using the effective interest method. The derivative component was measured at fair value at each reporting period.

(b) The closing of the second tranche of the Rich Stone Loan Facility in the amount of C$6.0 million was subject to the satisfaction of customary conditions precedent, including without limitation, Rich Stone being satisfied with its due diligence review of the Company's business and the assets, prospects and contracts and arrangements relating to the business. Rich Stone completed its due diligence review and on January 24, 2014, Rich Stone advanced an installment of C$2.5 million of the Rich Stone Loan Facility (C$2.35 million after payment to Rich Stone of an origination fee of C$150,000). On September 30, 2014, the Company received the remaining balance of the installments relating to the second tranche.

The second tranche of the Rich Stone Convertible Note was a compound financial instrument . At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount was recorded as a liability on an amortized cost basis using the effective interest method. The equity component was determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This was recognized and included in equity and is not subsequently re-measured.

Interest accrued on the principal amount advanced under the Rich Stone Loan Facility at a rate equal to 12% per annum, calculated daily and payable by the Company in arrears quarterly. On May 13, 2014, Rich Stone and the Company agreed to an amendment of the Rich Stone Loan Facility whereby the interest in aggregate amount of C$1,200,000 and the origination fee payable of C$600,000 (including origination fees paid to date by the Company under the Rich Stone Loan Facility in the amount of C$390,000) were to be advanced to the Company by Rich Stone as soon as practicable and repaid to Rich Stone on the maturity of the Rich Stone Loan Facility. As at December 31, 2014, the Company received only C$180,000 relating to the amendment.

Since the Off-Take Agreement between the Company and MF2 Investment Company 1LP dated November 21, 2012 was neither terminated nor revised within twelve weeks of the Initial Closing, pursuant to the terms of the loan agreement evidencing the Rich Stone Loan Facility, Rich Stone had the option to convert, in its sole discretion and at any time prior to the maturity date, the outstanding principal and interest outstanding in respect of the Initial Closing (excluding any default interest, if any) into common shares of the Company at the lower conversion price of: (i) C$0.37 per share; and (ii) the market price calculated as the volume weighted average price for the Company's common shares for the five (5) trading days prior to the date of conversion; provided that, such market price will not be less than a minimum price of C$0.30 per share.

Rich Stone could, in its sole discretion, and at any time prior to the maturity date, convert the principal and interest outstanding in respect of the second tranche (excluding default interest, if any) into common shares of the Company at the price of C$0.37 per share.

**7. Notes Payable (continued)**

On November 12, 2014, Rich Stone agreed to an extension of the maturity of the Rich Stone Loan Facility from November 12, 2014 to December 15, 2014 on an interest free basis to facilitate the expected closing of the loan facility ("Vincere Loan Facility") with Vincere Resource Holdings LLC ("Vincere") that closed on December 17, 2014 and is discussed further in Note 7(c). In conjunction with the closing of the Vincere Loan Facility, the following changes were effected on the Rich Stone Loan Facility ("New Rich Stone Loan Facility"):

1) Rich Stone converted the entire first tranche loan balance of $4,000,000 into 13,333,333 common shares at the agreed upon conversion price of C$0.30/share.
2) Rich Stone converted $1,000,000 of the second tranche loan balance into 2,702,702 common shares at the agreed upon conversion price of C$0.37/share.
3) $1,000,000 of the Rich Stone loan was repaid.
4) $120,000 of the Rich Stone loan was forgiven.
5) Remaining loan balance of $4,060,000 was extended for a period of 18 months past the closing of the Vincere Loan Facility. $3,060,000 of the extended loan balance had its conversion price modified to the greater of the market price at the time of conversion or $0.10/share. The conversion is not at the option of Rich Stone, but is triggered upon the company obtaining project financing of at least $10,000,000 USD. The extension of the loan is on an interest free basis. If at any time the Vincere loan is extended past its maturity date, the Rich Stone loan will also be extended for the same time period (up to a maximum of 6 months).
6) C$1,000,000 (which is an unsecured loan obligation) will be paid to Rich Stone as an extension payment.

The modification of the Rich Stone Loan Facility is a substantial modification, which was treated as an extinguishment for accounting purposes. At December 17, 2014, the modified debt was recorded at a fair value of $2,800,000 and the resulting differential due to extinguishment accounting of $5,005,000 was recorded to the debt reserve account in the equity section of the consolidated statements of financial position.

The Company has performed the assessment of the embedded derivatives within the New Rich Stone Loan Facility and concluded that there is an embedded derivative related to the conversion feature described in Note 7(b)(5) that has a nominal fair value at December 17 and 31, 2014.

(c) On December 17, 2014 (the "Closing Date"), the Company entered into a secured convertible loan facility with Vincere for an aggregate amount of $6,700,000 USD.

The Vincere Loan Facility will mature twelve months after the Closing Date (the "Maturity Date"), Vincere has an option to extend the Maturity Date of the loan for a maximum of 18 months (extension months are interest free). An annual interest rate of 13.00% shall apply to the principal amount for the period from the Closing Date to the Maturity Date and shall be paid in advance to Vincere on the Closing Date. No further interest shall be incurred except in the event of default at 5.00% per annum of the principal amount outstanding prior to the Maturity Date. Prepayment of the loan facility is not permitted.

**7. Notes Payable (continued)**

CAD$2,378,251 of the principal amount may, at the sole discretion of Vincere and in whole or in part in multiple tranches at any time prior to the Maturity Date, be converted into 31,710,013 Common Shares (the "Vincere Shares"), representing approximately 65% of the Corporation's currently outstanding common shares, at the Conversion Price (as defined below) (the "Conversion Feature"). However, the number of Common Shares issuable upon such conversion may at no time exceed 24.9% of the issued and outstanding Common Shares (including for greater certainty, such Common Shares issued upon such conversion). The volume weighted average trading price of common shares of the Corporation (the "Common Shares") for the five trading days ended November 7, 2014, the last trading day prior to the signing of the Term Sheet, was C$0.057 and the conversion price of C$0.075 per share (the "Conversion Price") is an approximate 30% per cent premium to such price as at such time.

Vincere was entitled to payment of a closing fee of $75,000, payable on the Closing Date and other reasonable expenses incurred in relation to executing the contemplated financing will be reimbursed to Vincere. Also, Vincere will be paid a monitoring fee of $22,000 per month during the term of the loan.

The Company has performed an assessment of embedded derivatives within the Vincere Loan Facility and concluded there are embedded derivatives. It was determined that since the extension feature on Vincere Loan Facility was not clearly and closely related to the Vincere Loan it is a derivative and was found to have a nominal value at December 17 and 31, 2014. It was also determined that the Vincere option to convert the debt into equity is an embedded derivative liability that is required to be measured at fair value at each reporting period. The Company recorded this embedded derivative as a current liability on the consolidated statements of financial position. At issuance on December 17, 2014, the embedded derivative’s fair value was determined to be $2,037. On December 31, 2014, the embedded derivative’s fair value determined to be $163,553.

As part of the Vincere Loan Facility, a subsidiary of the Corporation, Oracle Ridge Mining LLC (“Oracle Ridge”) will issue to Vincere a warrant to acquire up to 66.7% of the issued and outstanding equity interests of Oracle Ridge for up to CAD$20,000,000 (the "Warrant"), an investment of less than CAD$20,000,000 will result in a pro-rata decrease in ownership in the issued and outstanding equity interests of Oracle Ridge. However, until shareholder approval is obtained at a Special Meeting of Shareholders, only up to CAD$5,000,000, of the Warrant will be initially exercisable (the "Partial Warrant") for up to 49% of the issued and outstanding equity interests of Oracle Ridge, an investment of less than CAD$5,000,000 will result in a pro-rata decrease in ownership in the issued and outstanding equity interests of Oracle Ridge. Additionally, until shareholder approval is obtained for the Warrant, the Partial Warrant and the Conversion Feature as described above may not, in aggregate, through direct ownership in the Oracle Ridge or through Vincere's minority interest in Oracle Mining, exceed 49% of the total issued and outstanding equity interests of Oracle Ridge. This means that once shareholder approval is obtained for the Warrant, the Partial Warrant will expire and no longer be exercisable. The Partial Warrant and the Warrant may be exercised in whole or in part, and in one or more closings and will expire on the later of six months after the Maturity Date and when the Loan has been repaid in full. The Company convened a Special Meeting of the Shareholders on February 6, 2015 where approval of the Warrant was granted.

(In US$, tabular amounts in thousands, unless otherwise noted)

### 7. Notes Payable (continued)

The Company determined that the warrants are a derivative liability at fair value with changes in fair value included in net earnings. During the year ended December 31, 2014, there was a derivative gain of $71,000 (2013 - $nil).

(d) In conjunction with the closing of the Vincere Loan Facility, the Company issued a promissory note to Orion Resources Partners (USA) LP (“Orion”) that represents the trade payable outstanding to Orion as of December 17, 2014. The promissory note matures on December 17, 2016 and is non-interest bearing and is payable in full at the time of maturity.

### 8. Derivative liabilities

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| | **$** | $ |
| Convertible debenture conversion option - Rich Stone Loan Facility | **-** | 376 |
| Convertible debenture conversion option - Vincere Loan Facility | **164** | - |
| Share purchase warrants | **64** | - |
| | **228** | 376 |

The unrealized (gain)/loss associated with the derivative liabilities recorded in the statement of operations are as follows:

| | **December 31, 2014** | December 31 2013 |
|---|---|---|
| | **$** | $ |
| Convertible debenture conversion option unrealized gain - Rich Stone Loan Facility | **(363)** | (41) |
| Convertible debenture conversion option unrealized loss - Vincere Loan Facility | **164** | - |
| Share purchase warrants unrealized gain | **(71)** | - |
| | **(270)** | (41) |

The conversion option provided to the holder of the Rich Stone convertible note payable (Note 7 (b)) is a derivative liability. The fair value of the conversion option upon initial recognition was $417,000, and the conversion option was re-measured at fair value through the statement of operations at the end of each reporting period. For the year ended December 31, 2014, an unrealized gain was recognized for the conversion option of $363,000, which reduced the fair value of the conversion option to $nil at December 31, 2014.

(In US$, tabular amounts in thousands, unless otherwise noted)

## 9. Reclamation provision

Reclamation provision represents the estimated costs required to provide adequate restoration and rehabilitation upon completion of mining activities at Oracle Ridge. The Company measures the reclamation costs at fair value, which is based on the net present value of estimated future cash expenditures upon reclamation and closure. Reclamation costs are capitalized to mineral properties and will be amortized over the life of mine once the mine commences commercial production.

The estimated provision of $445,000 (2013 - $396,000), established at December 31, 2014, has been discounted to its present value at a rate of approximately 2.75% (2013 – 3.97%) per annum being an estimate of the long-term, risk-free, pre-tax cost of borrowing. The undiscounted balance of the reclamation provision is $649,000 (2013 - $708,000).

| | $ |
|---|---|
| Reclamation provision - December 31, 2012 | 221 |
| Accretion expense, included in financing charges | 7 |
| Revision in discount rate | (37) |
| Additional reclamation provision provided for in 2013 | 205 |
| Reclamation provision - December 31, 2013 | 396 |
| Accretion expense, included in financing charges | 13 |
| Revision in discount rate | 36 |
| Additional reclamation provision provided for in 2014 | - |
| **Reclamation provision - December 31, 2014** | **445** |

## 10. Capital risk management

The Company's objectives in managing its liquidity and capital resources are to safeguard the Company's ability to continue as a going concern and to provide financial capacity to meet its strategic objectives. The capital structure of the Company consists of promissory notes payable, convertible note, other long-term liabilities and equity, comprised of issued capital, warrant reserve, share-based payment reserve, debt reserve, foreign currency translation reserve and deficit.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue shares, issue new debt, and acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual budgets are approved by the Board of Directors. The Company does not pay out dividends.

(In US$, tabular amounts in thousands, unless otherwise noted)

## 10. Capital risk management (continued)

The Company's capital as at December 31, 2014 and 2013 is as follows:

| | **December 31, 2014** | December 31 2013 |
|---|---|---|
| | **$** | $ |
| Convertible debentures | **7,311** | 3,309 |
| Other long-term liabilities | **598** | 305 |
| Equity | **9,633** | 9,985 |
| | **17,542** | 13,599 |

## 11. Financial risk and risk management

The Company's financial instruments consist of cash and cash equivalents, receivables, marketable securities, reclamation bond, trade and other payables, promissory notes payable, convertible note, derivative liability and other liabilities. The Company has exposures to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors is responsible for the establishment and oversight of the Company's risk management policies and reviews the policies on an ongoing basis.

*(a) Interest rate risk*

The Company is exposed to interest rate risk with respect to the interest it earns on its cash and cash equivalents balances.

The Company does not enter into derivative contracts to manage the risk associated with interest rate movements.

*(b) Foreign currency risk*

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and has a 100% interest in the Oracle Ridge copper property in the US. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could have an effect on the Company's financial performance, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

(In US$, tabular amounts in thousands, unless otherwise noted)

**11. Financial risk and risk management (continued)**

At December 31, 2014, the Company held the following financial instruments denominated in Canadian dollars or US dollars:

| | US$ | C$ |
|---|---|---|
| Cash and cash equivalents | 405 | 3,277 |
| Other receivables | 10 | 113 |
| Trade and other payables | (317) | (224) |
| Convertible debenture - Rich Stone Loan Facility | - | (2,912) |
| Convertible debenture - Vincere Loan Facility | (4,966) | - |
| | (4,868) | 254 |

At December 31, 2013, the Company held the following financial instruments denominated in Canadian dollars or US dollars:

| | US$ | C$ |
|---|---|---|
| Cash and cash equivalents | 46 | 295 |
| Other receivables | 61 | 417 |
| Trade and other payables | (852) | (1,719) |
| Convertible debenture | - | (3,520) |
| | (745) | (4,527) |

At December 31, 2014, with other variables unchanged, a 10% change in the US dollar/ Canadian dollar exchange rate would increase/decrease pre-tax loss by $0.3 million for the year ended December 31, 2014 (2013 - $0.5 million).

*(c) Credit risk*

The Company's credit risk is mainly attributable to its liquid financial assets: cash and cash equivalents, marketable securities, and receivables. The Company deposits cash with high credit quality financial institutions and credit risk is considered to be minimal. The Company's maximum exposure to credit risk at December 31, 2014 and December 31, 2013, is as follows:

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| | **$** | $ |
| Cash and cash equivalents | **3,229** | 324 |
| Other receivables | **107** | 453 |
| Reclamation bond | **831** | 831 |
| | **4,167** | 1,608 |

(In US$, tabular amounts in thousands, unless otherwise noted)

## 11. Financial risk and risk management (continued)

*(d) Liquidity risk*

The Company manages liquidity risk through an annual budget and ongoing monitoring of expenses and capital expenditures to ensure it has sufficient liquidity to meet its business requirements as they come due. As of December 31, 2014, the Company had negative working capital of $4,752,000 (December 31, 2013 – negative working capital of $4,955,000).

As at December 31, 2014, the Company's liabilities and commitments have contractual maturities of:

| | Payments due by period | | | |
|---|---|---|---|---|
| | Total | Less than 1 year | 1-5 years | More than 5 years |
| | $ | $ | $ | $ |
| Trade and other payables | 1,097 | 1,097 | - | - |
| Convertible debenture, including interest | 10,464 | 10,464 | - | - |
| Reclamation provision (undiscounted) | 649 | - | - | 649 |
| Other liabilities | 598 | - | 598 | - |
| Lease commitments | 1,253 | 464 | 736 | 53 |
| | 14,061 | 12,025 | 1,334 | 702 |

## 12. Fair value measurement

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

(In US$, tabular amounts in thousands, unless otherwise noted)

**12. Fair value measurement (continued)**

At December 31, 2014 and December 31, 2013, the Company's financial assets and liabilities are categorized as follows:

| | | | | **2014** |
|---|---|---|---|---|
| | **FVTPL** | **Loans and receivables** | **Other liabilities** | **Total** |
| | **$** | **$** | **$** | **$** |
| Financial assets | | | | |
| Cash and cash equivalents | **-** | **3,229** | **-** | **3,229** |
| Other receivables | **-** | **107** | **-** | **107** |
| Reclamation bond | **-** | **831** | **-** | **831** |
| Financial liabilities | | | | |
| Trade and other payables | **-** | **-** | **598** | **598** |
| Convertible note payables | **-** | **-** | **7,311** | **7,311** |
| Derivative liability | **164** | **-** | **-** | **164** |
| Other long-term liabilities | **-** | **-** | **305** | **305** |

| | | | | 2013 |
|---|---|---|---|---|
| | FVTPL | Loans and receivables | Other liabilities | Total |
| | $ | $ | $ | $ |
| Financial assets | | | | |
| Cash and cash equivalents | - | 324 | - | 324 |
| Other receivables | - | 453 | - | 453 |
| Reclamation Bond | - | 831 | - | 831 |
| Financial liabilities | | | | |
| Trade and other payables | - | - | 2,472 | 2,472 |
| Convertible note payable | - | - | 2,933 | 2,933 |
| Derivative liability | 376 | - | - | 376 |
| Other long-term liabilities | - | - | 305 | 305 |

The fair values of cash and cash equivalents, receivables, reclamation bond, trade and other payables, promissory note payable, and other long-term liabilities approximate their carrying value due to the nature of these items.

(In US$, tabular amounts in thousands, unless otherwise noted)

## 12. Fair value measurement (continued)

| | **2014** | | | 2013 |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | Carrying value | Fair value |
| | **$** | **$** | $ | $ |
| Financial assets | | | | |
| Cash and cash equivalents | **3,229** | **3,229** | 324 | 324 |
| Other receivables | **123** | **123** | 453 | 453 |
| Reclamation bond | **831** | **831** | 831 | 831 |
| Financial liabilities | | | | |
| Trade and other payables | **575** | **575** | 2,472 | 2,472 |
| Convertible notes payable | **7,311** | **8,211** | 2,933 | 3,624 |
| Other long-term liabilities | **598** | **598** | 305 | 305 |

The Company has certain financial assets and liabilities that are measured at fair value. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

Level 1 - quoted prices (unadjusted) 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 (i.e., prices) or indirectly (i.e., derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's marketable securities are designated as Level 1 and derivative liability is designated as Level 2. There were no movements between levels during the year by any financial assets or liabilities.

## 13. Issued capital

*(a) Authorized*

The Company's authorized share capital consists of an unlimited number of common shares with no par value.

*(b) Issued*

On December 17, 2014, the Company issued 16,036,035 shares to Rich Stone at $0.03 per share as a result of Rich Stone converting C$5.0 million of the C$10,180,000 convertible loan balance into shares giving the shares a value of $481,081. See Note 7 for more details.

(In US$, tabular amounts in thousands, unless otherwise noted)

## 13. Issued Capital (continued)

### *(c) Long term incentive plan (“LTIP”)*

Pursuant to the terms of the Company’s LTIP, approved during the second quarter of 2012, the Board of Directors may, from time to time, grant options to directors, officers, employees or consultants. Options may be exercisable over periods of up to five years as determined by the Board of Directors of the Company and the exercise price is the last closing price of the shares preceding the awarding date. Stock options granted to employees, officers and consultants vest one-third immediately, one-third after 12 months from the date of grant and one-third after 24 months from the date of grant, while stock options granted to directors vest immediately. Stock options granted to investor relations consultants vest over a one year period, 25% each quarter, and are exercisable over a two year period from the date of grant.

A summary of the Company’s share options outstanding as at December 31, 2014 and the changes for the year then ended are as follows:

| | Directors and officers | Employees and consultants | Total number of options | Weighted average exercise price per share |
|---|---|---|---|---|
| | | | | C$ |
| Balance, December 31, 2012 | 1,770,000 | 2,127,667 | 3,897,667 | 1.23 |
| Granted | 2,175,000 | 75,000 | 2,250,000 | 0.41 |
| Forfeited | (975,667) | (710,001) | (1,685,668) | 1.14 |
| Expired | - | (154,000) | (154,000) | 1.08 |
| Balance, December 31, 2013 | 2,969,333 | 1,338,666 | 4,307,999 | 0.84 |
| Granted | 1,175,000 | 412,500 | 1,587,500 | 0.20 |
| Forfeited | (556,666) | (183,333) | (739,999) | 1.10 |
| Expired | - | (478,000) | (478,000) | 1.28 |
| **Balance, December 31, 2014** | **3,587,667** | **1,089,833** | **4,677,500** | **0.54** |

(In US$, tabular amounts in thousands, unless otherwise noted)

## 13. Issued Capital (continued)

The following table summarizes information about options outstanding and exercisable, granted to officers, directors, employees and consultants of the Company as at December 31, 2014:

| | | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|---|
| Exercise prices (C$/option) | Options outstanding | Weighted average exercise price (C$/option) | Weighted average remaining contractual life (years) | Options outstanding and exercisable | Weighted average exercise price (C$/option) | Weighted average remaining contractual life (years) |
| $ | | $ | | | $ | |
| 0.20 - 0.53 | 3,087,500 | $0.20 | 4.18 | 3,087,500 | $0.20 | 4.18 |
| 0.54 - 0.90 | 175,000 | $0.85 | 3.27 | 150,000 | $0.85 | 3.27 |
| 0.91 - 0.97 | 364,000 | $0.94 | 2.92 | 364,000 | $0.94 | 2.92 |
| 0.98 - 1.13 | 360,000 | $1.00 | 0.80 | 360,000 | $1.00 | 0.80 |
| 1.14 - 1.27 | 337,000 | $1.25 | 2.20 | 337,000 | $1.25 | 2.20 |
| 1.28 - 1.60 | 54,000 | $1.29 | 2.33 | 54,000 | $1.29 | 2.33 |
| 1.61 - 1.90 | 300,000 | $1.90 | 1.23 | 300,000 | $1.90 | 1.23 |
| | **4,677,500** | **$0.54** | **3.44** | **4,652,500** | **$0.54** | **3.44** |

(d) *Share-based payments*

During the year ended December 31, 2014, the Company granted 1,587,500 (2013 – 2,250,000) share options to directors, officers, and employees. No share options were granted to consultants during the year ended December 31, 2014 (2013 – nil). An amount of $141,000 (2013 - $250,000) was recorded in share-based payment reserve in recognition of share-based compensation, based on the vesting schedule for the options granted.

The fair value of each option granted during the year to employees and directors is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Number of options granted | **1,587,500** | 2,250,000 |
| Weighted average | | |
| Risk-free interest rate (%) | **1.09** | 1.13 |
| Expected life (years) | **2.50** | 2.57 |
| Expected volatility (%) | **80** | 75 |
| Expected dividend (%) | **-** | - |
| Forfeiture rate (%) | **42.14** | 37.79 |
| Weighted average fair value (per option) | **0.07** | 0.13 |

(In US$, tabular amounts in thousands, unless otherwise noted)

**13. Issued Capital (continued)**

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

*(d) Share based payments (continued)*

Expected volatility is measured as annualized weekly standard deviation of share price returns, based on historical movement of the Company's shares. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds. The fair value of each option granted during the year to consultants is estimated using the equivalent market price of the consultant services. The service fair value is recognized over the vesting period

*(e) Share purchase warrants*

A summary of the Company's share purchase warrants outstanding as at December 31, 2014, and 2013, and the changes for the years then ended are as follows:

| | Number of warrants | Average price of warrants |
|---|---|---|
| | | C$ |
| Balance January 1, 2013 | 4,900,000 | 1.02 |
| Granted | 0.00 | 0.00 |
| **Balance, December 31, 2013 and December 31, 2014** | **4,900,000** | **1.02** |

In November 21, 2012, the Company completed a private placement for 9,800,000 Units with each Unit consisting of one common share of the Company and one-half of a warrant to purchase one common share (each whole warrant, a "Warrant") at a subscription price of $1.02 per common share expiring on November 21, 2015.

(In US$, tabular amounts in thousands, unless otherwise noted)

## 14. General and administration expenses

| | Year Ended, December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | **$** | $ |
| Salaries and benefits | **818** | 1,503 |
| Professional and consulting fees | **522** | 1,863 |
| Share-based payments | **141** | 250 |
| Office expenses | **183** | 378 |
| Investor relations | **30** | 32 |
| Travel | **61** | 223 |
| Filing costs and shareholders' information | **51** | 67 |
| Insurance | **36** | 52 |
| Depreciation | **40** | 53 |
| Other | **-** | 30 |
| | **1,882** | 4,451 |

## 15. Exploration and evaluation expenditures

| | Year Ended, December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | **$** | $ |
| Design and technical studies | **239** | 2,825 |
| Permitting costs | **409** | 1,111 |
| Site and safety services | **252** | 710 |
| Drilling | **339** | 1,087 |
| Administrative and advisory costs | **1,243** | 2,337 |
| Underground exploration and development | **58** | 510 |
| | **2,540** | 8,580 |

Administrative and advisory costs includes depreciation of $211,000 (2013 - $212,000).

(In US$, tabular amounts in thousands, unless otherwise noted)

## 16. Income taxes

Total income tax expense consists of:

| | Year ended December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | **$** | $ |
| Current tax expense | **-** | - |
| Deferred tax expense | **-** | - |
| | **-** | - |

The provision for income taxes differs from the amounts computed by applying cumulative federal and provincial income tax rates to the loss before tax provision due to the following:

| | Year ended December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | **$** | $ |
| Loss before taxes | **(6,593)** | (13,198) |
| Canadian statutory tax rate | **26.0%** | 25.8% |
| Income tax recovery at statutory rate | **(1,715)** | (3,399) |
| Higher effective tax rate on loss in foreign jurisdiction | **(390)** | (1,304) |
| Current year tax losses not recognized | **113** | 1,494 |
| Change in unrecognized tax attributes | **656** | 3,398 |
| Non-deductible share-based compensation | **38** | 66 |
| Items recorded in equity | **265** | - |
| Other permanent differences and non-deductible expenses | **1,033** | (255) |
| Alternative minimum tax | **-** | - |
| Income tax expense | **-** | - |

As at December 31, 2014, the Company had deductible temporary differences for which deferred tax assets have not been recognized because it is not probable that the future profit will be available against which the Company can utilized the benefits. Deferred tax assets have not been recognized on the following items:

| | **2014** | 2013 |
|---|---|---|
| | **$** | $ |
| Mining assets, deferred development and capital assets | **20,449** | 21,704 |
| Non-capital loss carryforwards and other future tax deductions | **43,152** | 43,397 |
| | **63,601** | 65,101 |

(In US$, tabular amounts in thousands, unless otherwise noted)

**16. Income taxes (continued)**

As at December 31, 2013, the Company had a taxable temporary difference relating to investments in subsidiaries of $15,101 (2013 - $14,464) that has not been recognized because the Company controls whether the liability will be incurred and it's satisfied that it will not be incurred in the foreseeable future.

As of December 31, 2014, the Company has the following loss carryforwards available to reduce future years' income for tax purposes. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in relevant jurisdictions. The tax loss carryforwards expire as follows:

| | Canada | US | Total |
|---|---|---|---|
| | $ | $ | $ |
| December 31, 2028 | 1,699 | - | 1,699 |
| December 31, 2029 | 2,666 | - | 2,666 |
| December 31, 2030 | 3,198 | 64 | 3,262 |
| December 31, 2031 | 4,109 | 6,380 | 10,489 |
| December 31, 2032 | 4,786 | - | 4,786 |
| December 31, 2033 | 3,499 | 5,794 | 9,293 |
| December 31, 2034 | 3,028 | 2,836 | 5,864 |
| | 22,985 | 15,074 | 38,059 |

**17. Related party transactions**

*(a)* During the year ended December 31, 2014, the Company paid $nil (2013 - $517,000) in advisory fees to certain directors of the Company.

These transactions were incurred in the normal course of business and are measured at the exchange amount of the services provided.

*(b)* *Compensation of key management personnel*

The remuneration of directors and other members of key management personnel during the year ended December 31, 2013 were as follows:

**Related party transactions**

| | Year ended December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | **$** | $ |
| Salaries and directors' fees[1] | **820** | 1,565 |
| Share-based payment[2] | **82** | 298 |
| | **902** | 1,863 |

[1] Salaries and directors' fees include consulting and management fees disclosed in Note 17(a).
[2] Share-based payments are the fair value of options that have been granted to directors and key management personnel.

(In US$, tabular amounts in thousands, unless otherwise noted)

**17. Related party transactions (continued)**

(c) The Company considers its secured convertible loan facility with Rich Stone Mining Investment (Hong Kong) Limited to be a related party transaction. See Note 7(b) as Rich Stone is a significant shareholder of the Company.

**18. Contingencies and commitments**

Please refer to commitment schedule in Note 11(d).

(a) The Company is committed under the terms of a lease for its office premise for total aggregate payments of $1,256,000 expiring in 2018.

(b) The Company is committed under the terms of land leases for total aggregate payments of $496,500. The term of the leases extend to 2023.

(c) In December 2012, the Company received notification of a lawsuit against the Company from a third party regarding an alleged breach of contract related to a finder's fee in respect of certain financing arrangements. It was the position of the Company that none of the triggering events had occurred and that no compensation was payable by the Company. The Company defended the claim in a trial held on January 28-30, 2014 before a judge in the United States District Court Southern District of New York. On March 25, 2014, the Court issued its decision in favour of Oracle Mining and dismissed all claims that had been brought against the Company. The appeal period expired 30 days after the judgement was issued and no further action is expected.

**19. Supplemental cash flow information**

Details of net change non-cash working capital are as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | **$** | $ |
| Prepaid expenses and other receivables | **326** | 28 |
| Trade and other payables | **(1,496)** | 232 |
| Net change in non-cash working capital | **(1,170)** | 260 |

**20. Segmented information**

The Company currently operates in one business segment, being the acquisition and development of mineral properties. The Company's sole development property, Oracle Ridge, is located in the US and the Company's head office is located in Canada. Substantially all of the Company's long-lived assets are located in the US.