

**SABLE RESOURCES LTD.**

**Consolidated Financial Statements**

**December 31, 2014 and 2013**

**(Expressed in Canadian Dollars)**

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## **INDEPENDENT AUDITOR'S REPORT**

To: the Shareholders of  
Sable Resources Ltd.

I have audited the accompanying consolidated financial statements of Sable Resources Ltd. ("the Company"), which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of loss and comprehensive loss and cash flows and consolidated statements of changes in shareholders' equity for the years then ended December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

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

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

### **Auditor's Responsibility**

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and December 31, 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 my opinion, I draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of \$666,796 during the year ended December 31, 2014 and, as of that date, had an accumulated deficit of \$18,232,578 since inception. 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.

**"Sam S. Mah Inc"**  
Chartered Accountant

Vancouver, Canada  
April 30, 2015

**SABLE RESOURCES LTD.**  
**Consolidated Statements of Financial Position**  
**As At December 31, 2014**  
**(Expressed In Canadian Dollars)**

	2014	2013
<b>Assets</b>		
<b>Current assets</b>		
Cash & Cash equivalents	151	368
Trade receivables (Note 4)	1,657	1,756
	<u>1,808</u>	<u>2,124</u>
<b>Non-current assets</b>		
Reclamation bond (Note 5)	222,500	222,500
Mineral property interests (Note 6)	108,499	108,499
Equipment under capital lease (Note 7)	-	14,438
Plant and equipment (Note 7)	-	418,567
	<u>330,999</u>	<u>764,004</u>
<b>Total assets</b>	<u><u>332,807</u></u>	<u><u>766,128</u></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	424,498	424,359
Convertible debentures (Note 14)	334,362	3,845,007
Due to related parties	64,893	195,000
	<u>823,753</u>	<u>4,464,366</u>
<b>Shareholders' equity</b>		
Convertible debentures	-	82,074
Share capital (Note 8)	16,950,953	12,994,791
Contributed surplus	790,679	790,679
Deficit	(18,232,578)	(17,565,782)
	<u>(490,946)</u>	<u>(3,698,238)</u>
<b>Total Equity</b>	<u>(490,946)</u>	<u>(3,698,238)</u>
<b>Total Liabilities and Equity</b>	<u><u>332,807</u></u>	<u><u>766,128</u></u>

Approved by the Board:

"Mel Rahal", *Director*

"Stephen Pearce", *Director*

*See accompanying notes to the consolidated financial statements*

**SABLE RESOURCES LTD.**  
**Consolidated Statements of Shareholders' Equity**  
**For the Years Ended December 31, 2014 and 2013**  
**(Expressed in Canadian dollars )**

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\* On August 7th, 2014 the Company completed a share consolidation of one (1) post consolidated share for ten pre-consolidated shares. The number of shares outstanding has been adjusted to reflect the effect of this share consolidation.

*See accompanying notes to the consolidated financial statements*

**SABLE RESOURCES LTD.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the Years Ended December 31, 2014 and 2013**  
**(Expressed in Canadian dollars)**

	2014	2013
<b>Property related expenses ( income )</b>		
Amortization	\$ 93,155	\$ 119,954
Cost of mining and milling	26,922	72,385
Property maintenance	11,399	11,399
Gold recoveries	-	(38,832)
	<u>131,476</u>	<u>164,906</u>
<b>General and administration expenses (income)</b>		
Administration	51,243	79,925
Interest income	(2,433)	(2,509)
Interest expense	146,660	309,830
Loss on written-off capital assets	339,850	-
Other Income	-	(57,500)
	<u>535,320</u>	<u>329,746</u>
<b>Total comprehensive loss for the year</b>	<b>(666,796)</b>	<b>(494,652)</b>
Deficit - beginning of the year	(17,565,782)	(17,071,130)
<b>Deficit - end of the year</b>	<b><u>\$ (18,232,578)</u></b>	<b><u>\$ (17,565,782)</u></b>
Basic and diluted loss per share	(0.05)	(0.16)
Weighted average shares outstanding*	13,043,983	3,180,675

\* On August 7th, 2014 the Company completed a share consolidation of one (1) post consolidated share for ten (10) pre-consolidated shares. The weighted average number of shares outstanding has been adjusted to reflect the effect of this share consolidation.

**SABLE RESOURCES LTD.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2014 and 2013**  
**(Expressed in Canadian dollars)**

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	2014	2013
<b>Operating activities</b>		
Net loss for the period	\$ (666,796)	\$ (494,652)
Items not involving cash		
Debenture interest accrued	146,500	309,830
Amortization	93,155	119,954
Loss on written-off capital assets	339,850	-
	<u>(87,291)</u>	<u>(64,868)</u>
Change in non-cash components of working capital		
Trade receivables	139	19,186
Prepaid expenses	-	1,937
Trade and other payables	9,684	32,480
Due to related parties	77,251	5,000
<b>Cash used in operating activities</b>	<u>(217)</u>	<u>(6,265)</u>
Decrease in cash and cash equivalents during the period	(217)	(6,265)
(Overdraft)/Cash and cash equivalents-beginning of the period	368	6,633
cash and cash equivalents-end of the period	<u>\$ 151</u>	<u>\$ 368</u>
Cash paid for interest expenses	-	-
Cash paid for income taxes	-	-
Non- cash transactions:		
Shares issued in debt settlement	3,956,162	-
Debenture converted to shares	(3,739,219)	-
Amount due to related parties converted to shares	(216,943)	-

*See accompanying notes to the consolidated financial statements*

**SABLE RESOURCES LTD.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**  
**(Expressed in Canadian Dollars)**

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**1. Nature of Operations and Going Concern**

Sable Resources Ltd. (the "Company") is incorporated under the Business Corporation Act (British Columbia). The Company is primarily engaged in the acquisition, exploration and development of mineral resource properties. The Company owns a mine and mineral, milling equipment in northern British Columbia, Canada.

The address of the Company's corporate office and principal place of business is 355 Montroyal Blvd., North Vancouver, British Columbia, V7N 4G3.

**Going Concern**

The Company has not yet determined whether any of its properties contain mineral deposits that are economically recoverable. The recoverability of any amounts shown as deferred mineral interest costs is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of its properties.

While the Company's consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions and events indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. For the year ended December 31, 2014, the Company reported a net loss of \$666,796 (2013: \$494,652) and as at that date had an accumulated deficit of \$18,232,578 (2013: \$17,565,782). As of December 31, 2014, the Company has negative working capital of \$821,945 (2013: \$4,462,242). The Company does not have sufficient funds available to bring its mineral properties to production, if possible, which would allow it to be self-sustaining. The Company will need additional financing to continue exploring, and if successful develop its properties to bring it to the production stage. While in the past the Company has been successful in obtaining funding from equity financings, option agreements, convertible debentures or through other arrangements, there is no assurance that these initiatives will be successful in the future.

During the year ended December 31, 2014, the Company was in default of three convertible debentures including interest. Please see Note 14 - Convertible Debentures and Default Obligations. These convertible debentures were settled by converting into common shares of the Company. Please see Note 8 – Capital.

On August 7<sup>th</sup> 2014, the Company completed a share consolidation on a one (1) post-consolidated share for ten (10) pre-consolidated share basis. The Company's number of outstanding options and the accompanying exercise prices were consolidated on the same basis. Unless otherwise stated, the number of shares, options and the exercise prices of options presented in these consolidated financial statements have been adjusted to include the effect of this share consolidation.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material. The directors of the Company have approved these consolidated financial statements.

**SABLE RESOURCES LTD.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**  
**(Expressed in Canadian Dollars)**

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**2. Significant Accounting Policies (cont'd)**

*a) Statement of Compliance*

These consolidated financial statements include the accounts of Sable Resources Ltd. and its wholly owned subsidiary, Multinational Mining Inc. All intercompany transactions and balances have been eliminated.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. These consolidated financial statements represent the Company’s presentation of its results and financial position under IFRS. These accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all periods presented unless otherwise noted

These consolidated financial statements were approved and authorized for issue by the Company’s board of directors on April 30, 2015.

*b) Basis of Presentation*

These consolidated financial statements were prepared on an accrual basis and are based on historical costs except for financial instruments measured at fair value.

*c) Cash Equivalents and Reclamation Bond*

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a term to maturity of three months or less at acquisition, that are readily convertible to specified amounts of cash.

Reclamation bond are term deposits placed in the name of the government of the province of British Columbia as collateral for possible reclamation activities on the Company's mineral properties in connection with permits required for exploration activities. As they are restricted from general use, they are excluded from current assets.

*d) Functional and Presentation Currency*

The Company’s functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the year-end exchange rate and all income and expenses are translated at average exchange rates prevailing during the year. Non-monetary assets and liabilities are translated at the rates prevailing at the dates the assets were acquired or liabilities incurred. Exchange gains and losses arising on translation are included as a charge to operations in the year incurred.

*e) Exploration and Evaluation Assets*

Exploration and evaluation expenditures are expensed once the legal right to explore a property has been acquired. Exploration and evaluation assets are recorded at cost less accumulated impairment losses. Direct costs related to the acquisition, exploration and evaluation of mineral properties are capitalized until the commercial viability of the asset is established, at which time the capitalized costs are reclassified to mineral properties under development. To the extent that the expenditures are spent to establish ore reserves within the rights to explore, the Company will consider those costs as intangible assets in nature.

## **2. Significant Accounting Policies (cont'd)**

### *e) Exploration and Evaluation Assets (cont'd)*

The amortization of a capital asset in connection with exploring or evaluating a property of this nature will be included in the cost of the intangible asset.

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

Management reviews the facts and circumstances suggesting if the carrying amount of the exploration and evaluation assets exceeds their recoverable amount on a regular basis. If the facts and circumstances suggest the carrying value exceeds the recoverable amount, the Company will perform an impairment test on the property in accordance with the provisions of IAS 36.

Exploration stage assets and development stage assets are considered separate CGUs for impairment testing purposes.

The amount shown for mineral properties does not necessarily represent present or future values. Recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

### *f) Plant and Equipment*

Plant and equipment are stated at cost less accumulated amortization and are being depreciated on a declining basis at rates ranging between 10% and 45%, which approximate their estimated useful lives.

### *g) Deferred Income Taxes*

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. Deferred income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred income tax assets and liabilities of a change in tax rates is included in operations in the year in which the change is substantively enacted. The amount of deferred income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

### *h) Financial Assets*

Financial assets are classified into one of four categories:

- fair value through profit or loss (“FVTPL”);
- held-to-maturity (“HTM”);
- available for sale (“AFS”); and
- loans and receivables.

## **2. Significant Accounting Policies (cont'd)**

### *h) Financial Assets (cont'd)*

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

#### ***FVTPL financial assets***

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 held for trading if:

- 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
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Transaction costs are expensed as incurred.

#### ***HTM investments***

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. They are subsequently measured at amortized cost.

#### ***AFS financial assets***

Short-term investments and other assets held by the Company are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve. Impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, are recognized directly in profit or loss rather than equity.

When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investment's revaluation reserve is included in profit or loss for the period.

The fair value of AFS monetary assets denominated in a foreign currency is translated at the spot rate at the statement of financial position date. The change in fair value attributable to translation differences on amortized cost of the asset is recognized in profit or loss, while other changes are recognized in equity.

#### ***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.

## **2. Significant Accounting Policies (cont'd)**

### *h) Financial Assets (cont'd)*

Loans and receivables are initially recognized at the transaction value, including transaction costs and subsequently are carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### ***Fair value hierarchy***

Measurement of the fair value of financial instruments is made under a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

- Level 1: Valuations based on quoted prices, unadjusted, in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level I prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

### ***Effective interest method***

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

### ***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investments have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

## **2. Significant Accounting Policies (cont'd)**

### *h) Financial Assets (cont'd)*

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

#### ***De-recognition of financial assets***

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

#### **Capital Disclosures and Financial instruments — Disclosures and Presentation**

Capital Disclosures specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance (see Note 13).

### *i) Financial Liabilities and Equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

#### ***Other financial liabilities***

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

#### ***De-recognition of financial liabilities***

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

## **2. Significant Accounting Policies (cont'd)**

### *j) Critical Accounting Estimates, Judgments, and Uncertainties*

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

#### ***Critical Accounting Estimates and Assumptions***

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year.

##### *Share Based payments*

The Company uses the Black-Scholes pricing model to estimate the fair value of stock options granted and warrants issued. Under this model, the Company must estimate the term, volatility and if applicable, the forfeiture rate of options granted and warrants issued.

#### ***Critical Accounting Judgments***

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

##### *Amortization rates*

The application of determining the useful lives of equipment are estimates by management based on assumptions about future events. Estimates and assumption made may change if new information becomes available. New information may become available during the use of the equipment that causes the Company to adjust its estimate.

##### *Exploration and Evaluation Assets*

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumption made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information become available.

##### *Title to Mineral Property interests*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

## **2. Significant Accounting Policies (cont'd)**

### *j) Critical Accounting Estimates, Judgments, and Uncertainties (cont'd)*

#### *Impairment of non-financial assets*

The Company reviews and evaluates its property, including exploration and evaluation assets, plant and equipment for indications of impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable or at least at the end of each reporting period. The asset's recoverable amount is estimated if an indication of impairment exists.

Impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's 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 the current market assessment of the time value of money and the risks specific to the asset.

Impairment losses reducing the carrying value to the recoverable amount are recognized in profit and loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

### *k) Risk Instruments and Risk Management*

#### ***Financial Risk Management***

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The fair values of cash and cash equivalents, amounts receivable, reclamation bond and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. Convertible debentures are interest bearing and are amortized using the effective interest rate method.

#### ***Financial Instrument Risk Exposure***

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

## **2. Significant Accounting Policies (cont'd)**

### *k) Risk Instruments and Risk Management (cont'd)*

#### ***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 credit risk is primarily attributable to its bank accounts and accounts receivable. Bank accounts are with a Canadian Schedule 1 banks. Management believes that the credit risk with respect to receivable is remote.

#### ***Liquidity Risk***

Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due or that it will be required to meet them at excessive cost. The Company reviews its working capital position regularly to ensure there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company manages its liquidity risk through private placements.

The Company's operating cash requirements including amounts projected to complete its existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to commodity prices, cost overruns on capital projects and changes to government regulations relating to land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to pursue equity issuances, obtain project or debt financing, or enter into joint arrangements. There is no assurance that the necessary financing will be available in a timely manner.

#### ***Interest Rate Risk***

The Company is exposed to the risk that the value of financial instruments will change due to movements in market interest rates. As of December 31, 2014, the Company's convertible debentures are of fixed interest rates and not exposed to fluctuations in market interest rates. The Company does not use derivative instruments to reduce its interest rate risk as the Company's management believes that the likely financial impact of interest rate changes does not justify using derivatives.

The only significant market risk exposure to which the Company is exposed is short-term interest rate risk. The Company's bank account earns interest income at variable rates. The Company's future interest income is exposed to short-term rates.

#### ***Commodity Price Risk***

The Company is subject to commodity price risk for the sale of gold and silver. Mineral prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of commodities by various central banks, financial institutions, expectations of inflation or deflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, international supply and demand, speculative activities and increased production due to new mine developments, improved mining and production methods and international economic and political trends. The Company's revenues, if any, are expected to be in large part derived from the extraction of mineral products. As such, the effect of these factors on the price in future product sales, and therefore the economic viability of any of the Company's exploration projects, cannot accurately be predicted.

**2. Significant Accounting Policies (cont'd)**

*k) Risk Instruments and Risk Management (cont'd)*

***Environmental Risk***

The Company is engaged in mineral exploration and development and is accordingly exposed to environmental risks associated with mineral exploration and development activity. The Company has accepted liability and responsibilities for the reclamation of certain mineral claims including removal and decommissioning of the mill, camp and tailings pond to the satisfaction of government authorities. The amount of the reclamation liability at this date is not determinable. Failing to comply with their responsibilities for the required reclamation would result in the regulatory authorities seizing the Company's security bond in order to perform the necessary work with the Company liable for any costs in excess of the security bond.

*l) Leases*

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases wherein rental payments are charged to operations as incurred.

*m) Loss Per Share*

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share requires the use of the treasury stock method, which assumes that the exercise of stock options and warrants will have a dilutive effect on loss per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of stock options and warrants is applied to repurchase common shares at the average market price for the period.

*n) Revenue Recognition*

Revenue is recognized when gold and silver is sold.

*o) Impairment*

The Company's tangible and intangible assets are reviewed for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

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

**2. Significant Accounting Policies (cont'd)**

*o) Impairment (cont'd)*

The recoverable amount is the greater of the asset's 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 pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

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

*p) Asset Retirement Obligation*

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets 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 rehabilitation asset is depreciated on the same basis as mining assets.

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.

*q) Flow-Through Shares*

The Company may, from time to time, issue flow-through common shares to finance its resource exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholders the income tax attributes of resource exploration costs financed by such shares. Flow-through common shares are recognized in equity based on the quoted price of the existing shares on the date of the issue. The difference between the amounts recognized in common shares and the amount the investor pays for the shares is recognized as another liability which is reversed into earnings as eligible expenditures are incurred. The deferred tax impact is recorded prospectively upon renunciation of the related tax benefits, provided it is expected the Company will incur the required eligible expenditures.

*r) Share-based Payments*

The Company issues equity instruments such as common shares, share options and warrants, for services rendered by employees and non-employees.

## **2. Significant Accounting Policies (cont'd)**

### *r) Share-based Payments (cont'd)*

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in statement of comprehensive loss over the vesting period, described at the period during which all the vesting conditions are satisfied.

Where equity settled share options are awarded to employees, the fair value of the options at the date of the grant is charged to the statement of the comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the good or services received in the statement of comprehensive loss unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliability estimated, the fair value is measured by use of a valuation model.

All exercisable equity settled share-based payments are reflected in contributed surplus until exercised, the amount reflected in contributed surplus is credited to share capital along with the consideration paid for those shares.

Where the terms and conditions of equity settled share based payments are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is charged to the statement of comprehensive loss over the remaining vesting period.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

## **3. Accounting Standards Issued But Not Yet Effective**

(i) Effective for annual periods beginning on or after January 1, 2013

- IFRS 13 *Fair Value Measurement*

Defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRS's require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value.

### **3. Accounting Standards Issued But Not Yet Effective (cont'd)**

- IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- IFRS 11 *Joint Arrangements*

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities— Non-Monetary Contributions by Venturers.

- IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

(ii) Effective for annual periods beginning on or after January 1, 2014

- Amendments to IAS 32, *Financial Instruments: Presentation*

IAS 32 clarifies the application of the offsetting rules and requires additional disclosure on financial instruments subject to netting arrangements.

(iii) Effective for annual periods beginning on or after January 1, 2015

- IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards could have on future financial statements.

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**4. Other Receivables**

	<u>Dec 31, 2014</u>	<u>Dec 31, 2013</u>
Interest Receivable	\$ 1,657	\$ 1,756
HST/GST Receivable	-	-
	<u>\$ 1,657</u>	<u>\$ 1,756</u>

**5. Reclamation Bond and Commitment**

As at December 31, 2014, the Company has provided a \$222,500 (2013 - \$222,500) security bond to the Province of British Columbia as security against future reclamation which will be required on the Company's mineral properties once abandoned.

The Company is responsible for the reclamation of certain mineral claims and mining leases including removal and decommissioning of the mill, camp and tailings pond to the satisfaction of government authorities. The amount of the reclamation liability at this date is not determinable. Failing to comply with their responsibilities for the required reclamation would result in the regulatory authorities seizing the Company's security bond in order to perform the necessary work with the Company liable for any costs in excess of the reclamation bond.

**6. Mineral Property Interests**

	<u>Dec 31, 2014</u>	<u>Dec 31, 2013</u>
Shasta Claims	\$ 9,054	\$ 9,054
Chappelle Claims	74,535	74,535
Wild Rose Claims	20,060	20,060
Other	4,850	4,850
	<u>\$ 108,499</u>	<u>\$ 108,499</u>

The mineral property interests consist of numerous claims located in the Toodoggone area of northern British Columbia. The deferred amounts consist of acquisition costs.

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**7. Plant and Equipment**

	<b>December 31, 2014</b>			
	Cost	Accumulated Amortization	Written-off Dec 31 2014	Net Book Value
Equipment under capital lease	\$ 62,017	\$ 50,467	\$ 11,550	\$ -
Camp building	161,723	135,740	25,983	-
Machinery and computer equipment	1,121,411	850,774	270,637	-
Office and computer equipment	23,154	22,320	834	-
Automobiles	285,980	255,134	30,846	-
	<b>\$ 1,654,285</b>	<b>\$ 1,314,435</b>	<b>339,850</b>	<b>\$ -</b>

	<b>December 31, 2013</b>		
	Cost	Accumulated Amortization	Net Book Value
Equipment under capital lease	\$ 62,017	\$ 47,579	\$ 14,438
Camp building	161,723	126,648	35,075
Machinery and computer equipment	1,121,411	783,114	338,297
Office and computer equipment	23,154	22,025	1,129
Automobiles	285,980	241,914	44,066
	<b>\$ 1,654,285</b>	<b>\$ 1,191,292</b>	<b>\$ 433,005</b>

**8. Share Capital**

*a) Authorized*

Unlimited number (2013 - unlimited) common shares without par value.

*b) Issued and outstanding*

	<b>Number of Shares</b>	<b>\$ Amount</b>
Balance, December 31, 2010	31,806,750	12,519,370
Flow-through shares IFRS adjustment	-	475,421
Balance, December 31, 2011, 2012, 2013	31,806,750	12,994,791
Shares issued in settlement of shareholder' loan	10,847,150	216, 943
Shared issued in settlement of debentures	186,960,950	3,739,219
Balance, August 6, 2014	<u>229,614,850</u>	<u>16,950,953</u>
Balance, December 31, 2014	22,961,490	16,950,953

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On August 7<sup>th</sup> 2014, the Company completed a share consolidation on a one (1) post-consolidated share for ten (10) pre-consolidated share basis. The Company's number of outstanding options and the accompanying exercise prices were consolidated on the same basis. Unless otherwise stated, the number of shares, options and the exercise prices of options presented in these condensed consolidated interim financial statements have been adjusted to include the effect of this share consolidation.

**8. Share Capital (cont'd)**

*c) Stock Options*

The Company has a share option plan whereby officers, directors and certain employees and consultants may be granted options to purchase unissued common shares of the Company. The option exercise price is decided by the Directors of the Company but may not be less than the discounted market price of the Company's shares as defined in the Rules and Policies of the TSX Venture Exchange.

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price \$</b>	<b>Weighted Average Life Remaining</b>
Balance, December 31, 2013	175,000	\$ 1.7	0.8
Expired	(25,000)	-	-
Balance, December 31 2014	<u>150,000</u>	<u>1.7</u>	<u>0.8</u>

At December 31, 2014, the following stock options were outstanding:

<b>Number of Shares</b>	<b>Weighted Average Exercise Price \$</b>	<b>Expiry Dated</b>
117,500	1.50	Sep 29, 2015
22,500	2.50	Sep 29, 2015
10,000	1.60	Jan 28, 2016
<u>150,000</u>	<u>\$ 1.70</u>	

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**8. Share Capital (cont'd)**

*d) Stock Options Granted*

During the year ended December 31, 2014, the Company granted no stock options.

*e) Share Purchase Warrants*

At December 31, 2014, there were no share purchase warrants outstanding.

**9. Related Party Transactions**

See Note 14 for convertible debenture issued to related party.

As at December 31, 2014, a director of the Company advanced an amount of \$260,892 (2013 - \$195,000) to the Company; the advance is non-interest bearing and repayable on demand. During the period, the Company arranged a debt settlement of which an amount of \$216,943 was converted into common shares of the Company at \$0.02 per pre-consolidated common share.

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Amounts due to related parties are unsecured with no specific terms for repayment.

**10. Fair Value Hierarchy**

Measurement of the fair value of financial instruments is used under a fair value three-level hierarchy based upon the significance of inputs used in making fair value measurements as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data.

At December 31, 2014, the levels in the fair value hierarchy into which the Company's financial assets and liabilities measured and recognized in the balance sheet at fair value are categorized are as follows:

	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	151	

**11. Segmented Information**

The Company considers itself to operate in a single operating segment, being resource exploration and development, and operates in a single geographic segment being Canada.

## **12. Commitments and Contingencies**

The Company is a defendant in a Contract of Employment civil claim for unjust dismissal, which it is still vigorously defending.

## **13. Capital Management**

The Company was incorporated under the laws of British Columbia and is a junior natural resource company listed on the TSX Venture Exchange.

The Company's objectives are to raise the necessary equity financing to fund its exploration projects and mining activities and to manage the equity funds raised to best optimize its exploration and mining programs in the interests of its shareholders and other stakeholders at an acceptable risk.

In the management of capital, the Company includes shareholders' equity, cash and cash equivalents, short-term and long-term investments and advances receivable in the definition of capital.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Company may raise additional equity funds and acquire new exploration properties as circumstances dictate.

## **14. Convertible Debentures**

The Company entered into four private placements for \$3,260,000 in the form of convertible debentures as follows:

- a \$450,000 convertible debenture issued to a company owned by a director and CEO of the Company bearing interest at 8% compounded annually, with a conversion rate of \$0.20 per share up to February 6, 2012;
- a \$1,050,000 convertible debenture bearing interest at 10% compounded annually, with a conversion rate of \$0.15 per share up to September 9, 2012;
- a \$1,200,000 convertible debenture bearing interest at 8% annually, payable semiannually, with a conversion rate of \$0.25 per share up to November 1, 2012.
- a \$560,000 convertible debenture bearing interest at 10% compounded annually, with a conversion rate of \$0.15 per share up to May 11, 2014

The convertible debentures are compound financial instruments and as such have been recorded as a liability and as equity. The liability component was valued first, and the difference between the proceeds of the debenture and the fair value of the liability was assigned to the equity component. The carrying value of \$82,074 of the equity component has been recorded as a separate component of shareholders' equity (deficiency). The present value of the liability was calculated using a discount rate of 10% which approximated the interest rate that would have been applicable to non-convertible debt of the Company at the time the debentures were issued. The liability component would be accreted to the face value of the debentures over the term of the debentures with a resulting charge to

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interest expense. During the year ended December 31, 2013 \$15,951 (2012 - \$12,150) was charged to interest expense and accredited to the carrying value of the liability component.

During the year, the Company arranged a debt settlement of which the principal amount of the four convertible debentures of \$3,260,000 and unpaid interest of \$479,219 were converted into common shares of the Company at \$0.02 per pre-consolidated common share. As at December 31, 2014, \$334,362 of debenture interest was unconverted and owing to a director of the Company.

**15. Income Taxes**

There was no current income tax expense or recovery for 2014 or 2013.

Income tax expense differs from the amount which would result from applying the statutory Canadian income tax rate for the following reasons:

	<b>2014</b>	<b>2013</b>
Loss for the year	\$ (666,796)	\$ (494,652)
Canadian income tax rate	26.0%	26.0%
Tax based on statutory income tax rate	(173,367)	(128,609)
Change in valuation allowance	126,000	321,000
Unrecognized tax losses	(47,367)	(192,391)
	<u>\$ -</u>	<u>\$ -</u>

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	<b>2014</b>	<b>2013</b>
Deferred income tax assets		
Capital assets	\$ 732,000	\$ 620,000
Canadian resource deductions	6,836,000	6,829,000
Losses carried forward	2,282,000	2,275,000
	<u>9,850,000</u>	<u>9,724,000</u>
Valuation Allowance	(9,850,000)	(9,724,000)
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The Company has approximately \$8,780,000 (2013 - \$8,748,000) of non-capital losses which expire in various years up to 2034 and approximately \$3,300,000 of capital losses which may be carried forward indefinitely.