

# **FIRST MOUNTAIN EXPLORATION INC.**

**Financial Statements**

*December 31, 2014*



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of First Mountain Exploration Inc.

We have audited the accompanying financial statements of First Mountain Exploration Inc., which comprise the statements of financial position as at December 31, 2014 and 2013, the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of First Mountain Exploration Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 in the financial statements which indicates that First Mountain Exploration Inc. does not have sufficient working capital to fund operations during the upcoming year. This condition, along with other matters as set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**KPMG LLP**

Chartered Accountants  
April 30, 2015

# FIRST MOUNTAIN EXPLORATION INC.

## STATEMENTS OF FINANCIAL POSITION

As at December 31,

In Canadian Dollars	2014 \$	2013 \$
<b>Assets</b>		
Current		
Cash and cash equivalents	882,011	1,805,601
Accounts receivable	100,460	222,898
Prepaid expenses and deposits	38,196	22,885
	1,020,667	2,051,384
Exploration and evaluation assets (Note 7)	27,320	27,320
Property, plant and equipment (Note 8)	793,258	2,146,073
<b>Total assets</b>	<b>1,841,245</b>	<b>4,224,777</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	329,698	1,466,396
Decommissioning obligations (Note 9)	378,111	457,155
<b>Total liabilities</b>	<b>707,809</b>	<b>1,923,551</b>
<b>Equity</b>		
Share capital (Note 10)	12,320,111	11,591,349
Warrants (Note 10)	-	702,638
Contributed surplus	1,443,602	727,511
Deficit	(12,630,277)	(10,720,272)
<b>Total equity</b>	<b>1,133,436</b>	<b>2,301,226</b>
<b>Total liabilities and equity</b>	<b>1,841,245</b>	<b>4,224,777</b>

Going concern (Note 2)

Commitments (Note 17)

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

On behalf of the Board of Directors,

“William Slipp”  
Interim CEO and Director

“Wayne Murphy”  
Director

# FIRST MOUNTAIN EXPLORATION INC.

## STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31,

In Canadian Dollars	2014 \$	2013 \$
Oil and gas sales	582,584	492,368
Royalties	(33,995)	(49,225)
<b>Revenue, net of royalties</b>	<b>548,589</b>	<b>443,143</b>
<b>Expenses</b>		
Operating expenses	453,205	227,906
Transportation	80,301	38,809
Depletion and depreciation (Note 8)	80,326	152,078
General and administrative	619,892	697,792
Share-based compensation (Note 11)	13,453	167,464
	1,247,177	1,284,049
<b>Loss before other income and expenses and taxes</b>	<b>698,588</b>	<b>840,906</b>
<b>Other income and expenses</b>		
Gain on purchase of property (Note 6)	(44,826)	-
Loss on disposition of property (Note 6)	1,240,905	-
Finance income – interest income	(1,399)	(10,556)
Interest expense	2,761	-
Finance costs	13,976	7,752
	1,211,417	(2,804)
Loss before taxes	1,910,005	838,102
<b>Taxes</b>		
Deferred tax recovery (Note 13)	-	103,600
<b>Net loss and comprehensive loss</b>	<b>1,910,005</b>	<b>734,502</b>
<b>Loss per share (Note 10):</b>		
Basic and diluted	\$0.10	\$0.06

The notes are an integral part of these financial statements.

# FIRST MOUNTAIN EXPLORATION INC.

## STATEMENTS OF CHANGES IN EQUITY

In Canadian Dollars	Share Capital \$	Warrants \$	Contributed Surplus \$	Deficit \$	Total Equity \$
<b>Balance at December 31, 2012</b>	10,758,890	536,683	520,554	(9,819,815)	1,996,312
Common shares issued	576,240	-	-	-	576,240
Flow-through shares issued, net of flow-through share premium of \$103,600	414,400	-	-	-	414,400
Share issue costs	(158,181)	-	-	-	(158,181)
Share based payments	-	-	206,957	-	206,957
Warrant term extension and reprice	-	165,955	-	(165,955)	-
Loss and comprehensive loss	-	-	-	(734,502)	(734,502)
<b>Balance at December 31, 2013</b>	11,591,349	702,638	727,511	(10,720,272)	2,301,226
Common shares issued	755,000	-	-	-	755,000
Share issue costs	(26,238)	-	-	-	(26,238)
Warrant expiry	-	(702,638)	702,638	-	-
Share based payments	-	-	13,453	-	13,453
Net loss and comprehensive loss	-	-	-	(1,910,005)	(1,910,005)
<b>Balance at December 31, 2014</b>	12,320,111	-	1,443,602	(12,630,277)	1,133,436

# FIRST MOUNTAIN EXPLORATION INC.

## STATEMENTS OF CASH FLOWS

For the years ended December 31,

In Canadian Dollars	2014 \$	2013 \$
<b>Operating activities</b>		
Net loss for the year	(1,910,005)	(734,502)
Adjustments for:		
Depletion and depreciation	80,326	152,078
Deferred tax recovery	-	(103,600)
Share-based compensation	13,453	167,464
Accretion	13,976	7,752
Gain on purchase of property	(44,826)	-
Loss on disposition of property	1,240,905	-
Changes in non-cash working capital (Note 15)	(187,907)	94,798
	<b>(794,078)</b>	<b>(416,010)</b>
<b>Investing activities</b>		
Expenditures on exploration and evaluation assets	-	(27,320)
Additions to property, plant and equipment	(526,609)	(925,858)
Property acquisitions	-	(839,364)
Property disposition	510,000	-
Changes in non-cash working capital (Note 15)	(841,664)	841,664
	<b>(858,273)</b>	<b>(950,878)</b>
<b>Financing activities</b>		
Share issuances	755,000	1,094,240
Share issue costs (net of tax of \$nil)	(26,238)	(118,688)
	<b>728,762</b>	<b>975,552</b>
<b>Decrease in cash and cash equivalents</b>	<b>(923,589)</b>	<b>(391,336)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,805,601</b>	<b>2,196,937</b>
<b>Cash and cash equivalents, end of year</b>	<b>882,012</b>	<b>1,805,601</b>

The notes are an integral part of these financial statements.

# FIRST MOUNTAIN EXPLORATION INC.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

Canadian Dollars

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## 1. Reporting Entity

First Mountain Exploration Inc. ("First Mountain" or the "Company") is a publicly traded company engaged in the exploration for and the acquisition, development and production of oil and natural gas reserves in western Canada. The Company was incorporated on December 10, 2010. The Company's head office address is located at 1000, 640 – 8<sup>th</sup> Avenue SW Calgary, Alberta, Canada T2P 1G7.

## 2. Going Concern

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future.

During the year ended December 31, 2014, the Company incurred a net loss of \$1.9 million and used \$1.6 million of cash flow in its operating activities. At December 31, 2014 the Company had working capital of \$0.7 million which is not considered sufficient to fund operations during the upcoming year. As a result, this condition raises significant doubt related to the Company's ability to continue as a going concern.

Management believes that the going concern assumption is appropriate for these financial statements. Management believes that the Company will be able to obtain financing either through the issuance of shares, debt or the sale of assets to fund ongoing operations and exploration and development activities. There is no guarantee that the Company will be successful in these endeavors. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these financial statements would require adjustments to the amounts and classifications of assets and liabilities and these adjustments could be significant.

## 3. Basis of Measurement

### (a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The financial statements were authorized for issue by the Board of Directors on April 30, 2015.

### (b) Basis of preparation

The financial statements have been prepared on the historical cost basis with some exceptions, as detailed in the accounting policies set out in Note 4 below. These policies have been applied consistently to all periods presented in these financial statements.

### (c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency, the currency of the primary economic environment in which the Company operates.

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## (d) Use of judgments and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

## Exploration and Evaluation Assets

Changes in circumstances or expectations of future performance of an exploration and evaluation asset may be an indicator that the asset is impaired requiring the book value to be written down to its recoverable amount. Evaluating if an asset is impaired requires a high degree of judgment regarding changes in circumstances and in estimating relevant future cash flows, based on assumptions about the future market prices, production output, and discount rates.

## Determination of Recoverability of Asset Carrying Values

The recoverability of development and production asset carrying values are assessed at a cash generating unit ("CGU") level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. The key estimates used in the determination of cash flows from oil and natural gas reserves include the following:

Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

Oil and natural gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.

Discount Rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

## Estimation of Oil and Gas Reserves

Reserves form the basis for the calculation of depletion charges and assessment of impairment of oil and gas assets. Reserves are estimated using the reserve definitions and guidelines prescribed by National Instrument 51-101 (NI 51-101) and the Canadian Oil and Gas Evaluation Handbook.

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Proved plus probable reserves are defined as the “best estimate” of quantities of oil, natural gas and related substances estimated to be commercially recoverable from known accumulations, from a given date forward, based on drilling, geological, geophysical and engineering data, the use of established technology and specified economic conditions, It is equally likely that the actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves. The estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes and reservoir performance or a change in First Mountain’s plans with respect to future development or operating practices.

## Depletion and Depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital which by their nature are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

## Decommissioning Obligations

Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Other provisions are recognized in the period when it becomes probable that there will be future cash outflow.

## Share Based Compensation

Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

## Deferred Taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

# FIRST MOUNTAIN EXPLORATION INC.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

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## 4. Significant Accounting Policies

A summary of the Company's significant accounting policies is set out below:

### (a) Foreign currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are carried at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined. Non-monetary assets held at historical cost are not retranslated subsequent to initial recognition. Foreign currency differences arising on translation are recognized in earnings.

### (b) Financial instruments

#### i. Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, account receivables and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

#### ii. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, term deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

#### iii. Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through earnings are measured at fair value, and changes therein are recognized in earnings.

#### iv. Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less any required discount to reduce the payables to fair value.

### (c) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

### (d) Exploration and Evaluation Assets and Property, Plant and Equipment

#### i. Exploration and evaluation expenditures:

Pre-license costs are expensed as incurred. Exploration and evaluation costs, including the costs of acquiring licenses, seismic, exploration drilling and directly attributable general and administrative costs are initially capitalized as exploration and evaluation assets according to the nature of the

# FIRST MOUNTAIN EXPLORATION INC.

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assets acquired. The costs are accumulated in cost centers pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven or probable reserves are determined to exist. A review is carried out, on a quarterly basis, to ascertain whether proven or probable reserves have been discovered. Upon determination of proven or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment assets.

ii. Property, plant and equipment costs:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("CGU"s) for impairment testing.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific assets to which they relate. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proven and/or probable reserves and bringing on or enhancing production from such reserves. The carrying amount of any replaced or sold component is derecognized. The costs of periodic servicing of property, plant and equipment are recognized in earnings.

iii. Depletion and depreciation

The net carrying value of development or production assets are depleted using the unit of production method by reference to the ratio of production in the period to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers on an annual basis.

Proven and probable reserves are estimated using independent reserve engineer reports in accordance with Canadian Securities Regulation National Instrument 51-101 and represent the estimated quantities of oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

In determining reserves for use in the depletion and impairment calculations, a boe conversion ratio of six thousand cubic feet of gas ("mcf") to one barrel of oil ("bbl") is used as an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in the reserve reports are derived by converting natural gas to oil in the ratio of six mcf of gas to one barrel of oil.

For other assets, depreciation is recognized in comprehensive income or loss on a declining-balance rate ranging from 20 to 33% based on their estimated useful lives. Exploration and evaluation assets are not depreciated.

# FIRST MOUNTAIN EXPLORATION INC.

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## (e) Impairment

### Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in earnings.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

### Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed whenever there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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 risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Exploration and evaluation assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability, (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount and (iii) when they are reclassified to property, plant and equipment. For purposes of impairment testing, exploration and evaluation assets are combined with the appropriate cash-generating units.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if 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

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have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(f) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(g) Share-based payments

The Company issues equity-settled share-based payments under which it receives services from directors, officers, employees and consultants and as consideration for equity instruments of the Company.

Where share options are granted to directors, officers, employees or consultants the fair value of options on the date they are granted is recognized as compensation cost with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated in the grant date and is adjusted to reflect the actual number of options that vest. The Company uses the Black-Scholes model to estimate fair value.

Where equity-settled share options are granted to non-employees they are recorded at the fair value of the goods or services received in the statement of loss/income, 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 reliably estimated, the fair value is measured using the Black-Scholes pricing model.

All equity-settled share-based payments are reflected in contributed surplus until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is reclassified to share capital.

(h) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's estimate of the expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision had been established.

(i) Revenue Recognition

Revenue from the sale of oil and natural gas will be recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, which is usually when legal title passes to the external party and when collection is reasonable assured.

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Royalty income is recognized in petroleum and natural gas revenues as it accrues in accordance with the terms of the overriding royalty agreements.

(j) Finance income and expenses

Finance expense is comprised of interest expense on borrowings, impairment losses recognized on financial assets and accretion of the discount on provisions.

Interest income is recognized as it accrues in earnings, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(k) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Flow-through shares:

Proceeds from the issuance of flow-through shares are used to fund qualifying exploration and development expenditures with such expenditures being renounced to investors in accordance with applicable tax legislation. The estimated cost of the tax deductions to be renounced to shareholders is reflected as a reduction of the stated value of the shares. The flow-through share premium liability is the difference between the quoted market price of a non flow-through share and the amount the investor pays for the flow-through share. The flow-through share premium liability is reversed when the related qualifying expenditures are made. The difference between the flow through share

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premium liability and the deferred tax liability recorded upon expenditure is recorded as deferred tax expense.

(m) New standards and interpretations not yet adopted:

As of January 1, 2014, First Mountain adopted the following standards and amendments as issued by the International Accounting Standards Board ("IASB"). The Company assessed the requirements and determined there is no material impact on First Mountain's Financial Statements.

- IAS 32 Financial Instruments: Presentation, has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent upon a future event. The adoption of this amendment did not impact the Company's financial statements.
- IAS 36 Impairment of Assets, has been amended to require additional disclosures in the event of recognizing an impairment of assets. The Company did not recognize an impairment of assets as at or during the year ended December 31, 2014 and as a result, the adoption of this amendment did not impact the Company's financial statement disclosures.
- Effective January 1, 2014, the International Financial Reporting Interpretation Committee ("IFRIC") 21 clarified that an entity recognizes a liability for a levy when the activity that triggers payment occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarified that no liability should be anticipated before the minimum threshold is reached. The adoption of this interpretation did not have an impact on the Company's financial statements.

Accounting standards issued but not yet effective

- IFRS 15 Revenue from Contracts with Customers, provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Management is currently assessing the potential impact of the adoption of IFRS 15 on the Company's financial statements.
- IFRS 9 Financial Instruments, is intended to replace IAS 39 Financial Instruments: Recognition and Measurement and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, a company can recognize the portion of the change in fair value related to the change in the company's own credit risk through other comprehensive income rather than profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements.

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## 5. Determination of Fair Values

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The following describes the grouping of financial instruments.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of the Company's cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximated their fair values due to the short term nature of the instruments.

## 6. Property Acquisition and Disposition:

### (a) Lanaway and Fir Assets

On April 30, 2013, the Company completed a property acquisition consisting of producing oil and gas properties in the Lanaway and Fir areas of Alberta ("Lanaway and Fir Assets") for total cash consideration of \$393,197. This transaction was accounted for as a business combination using the purchase method of accounting whereby the net assets acquired and the liabilities assumed are recorded at fair value as follows:

	\$
Property, plant and equipment	722,126
Decommissioning obligations assumed	(328,929)
	393,197

### (b) Atlee Buffalo Assets

On May 31, 2013, the Company completed a property acquisition consisting of a 50% working interest in a producing oil and gas property in the Atlee Buffalo area of Alberta ("Atlee Buffalo Assets") for total cash consideration of \$166,166. This transaction was accounted for as a business combination using the purchase method of accounting whereby the net assets acquired and the liabilities assumed are recorded at fair value as follows:

	\$
Property, plant and equipment	234,670
Decommissioning obligations assumed	(68,503)
	166,167

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On September 1, 2013, the Company completed a property acquisition consisting of an additional 35% working interest in the Atlee Buffalo Assets for total cash consideration of \$280,000. This transaction was accounted for as a business combination using the purchase method of accounting whereby the net assets acquired and the liabilities assumed are recorded at fair value as follows:

	\$
Property, plant and equipment	327,332
Decommissioning obligations assumed	(47,332)
	280,000

## (c) Fir Assets

On February 25, 2014, the Company completed a property acquisition consisting of producing oil and gas properties in Fir areas of Alberta ("Fir Assets") for total cash consideration of \$Nil. This transaction was accounted for as a business combination using the purchase method of accounting whereby the net assets acquired and the liabilities assumed are recorded at fair value as follows:

	\$
Property, plant and equipment	52,184
Decommissioning obligations assumed	(7,358)
Gain on acquisition	44,826

The statement of loss and comprehensive loss includes the results of operations for the period following the close of the acquisition to December 31, 2014.

## (d) Atlee Buffalo Assets

In July 2014, the Company completed the sale of its Atlee Buffalo assets for cash proceeds of \$510,000 prior to adjustments of \$22,867.

	\$
Property, plant and equipment	1,986,316
Less: Accumulated depletion	(106,616)
	1,879,700
Decommissioning obligations disposed	(128,795)
Proceeds from sale	510,000
Loss on disposition	1,240,905

# FIRST MOUNTAIN EXPLORATION INC.

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## 7. Exploration and Evaluation Assets:

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of year	27,320	-
Property acquisition	-	27,320
Balance, end of year	27,320	27,320

Exploration and evaluation assets consisted of First Mountain's exploration projects for which the technical feasibility or commercial viability had yet to be determined. At the time sufficient information became available to determine whether the project was technically feasible or commercially viable, which is the point at which proved and/or probable reserves were discovered, the costs were transferred to property, plant and equipment.

The Company did not capitalize any general and administrative expenses or share-based compensation expenses directly related to exploration and evaluation assets.

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## 8. Property, Plant and Equipment

	Development & production assets \$	Office furniture & equipment \$	Total \$
<b>Cost:</b>			
Balance at December 31, 2012	989,064	14,673	1,003,737
Property acquisitions	1,284,128	-	58,933
Additions	893,682	-	931,143
Balance at December 31, 2013	3,166,874	14,673	3,181,547
Property acquisitions	52,184	-	52,184
Additions	555,027	-	555,027
Dispositions	(1,986,316)	-	(1,986,316)
Balance at December 31, 2014	1,787,769	14,673	1,802,442
<b>Depletion and depreciation:</b>			
Balance at December 31, 2012	877,973	5,423	883,396
Depletion and depreciation for the year	149,273	2,805	152,078
Balance at December 31, 2013	1,027,246	8,228	1,035,474
Dispositions	(106,616)	-	(106,616)
Depletion and depreciation for the year	78,246	2,080	80,326
Balance at December 31, 2014	998,876	10,308	1,009,184
<b>Carrying amounts:</b>			
At December 31, 2013	2,139,628	6,445	2,146,073
At December 31, 2014	788,893	4,365	793,258

At December 31, 2014 \$10,000 (2013 - \$170,000) of future development costs were included in costs subject to depletion and an estimated \$128,849 of salvage value on production equipment was excluded from the costs subject to depletion (2013 - \$144,787).

## 9. Decommissioning Obligations

Years ended December 31,	2014 \$	2013 \$
Balance, beginning of year	457,155	36,815
Provisions	-	8,662
Property acquisitions (Note 6)	7,358	444,764
Dispositions (Note 6)	(128,765)	-
Revisions	28,387	(40,838)
Accretion	13,976	7,752
Balance, end of year	378,111	457,155

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The Company's decommissioning obligations are the result from its ownership interest in oil and natural gas well sites. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells, estimated costs to reclaim and abandon these wells and the estimated timing of costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be \$378,111 as at December 31, 2014 (2013 - \$457,155) based on an undiscounted total future liability of \$399,224 (2013 - \$654,944). The weighted average time in which these payments are expected to be made is approximately 10.6 years. The discount factor, being the risk-free rate related to the liability, is 2.3% (2013 - 3.2%) and the inflation rate is 2% (2013 - 2%) per annum.

## 10. Share Capital and Warrants

### Authorized

The Company is authorized to issue an unlimited number of common shares and preferred shares.

The holders of common shares are entitled to receive dividends which may be declared from time to time, and are entitled to one vote per share at meetings of the Company. The Company does not anticipate paying dividends.

### Issued and outstanding

	Number	Amount \$
<b>Common Shares</b>		
Balance at December 31, 2012	11,787,413	10,758,890
Issued for cash - private placement offering - September 27, 2013	961,200	192,240
Issued for cash - flow-through share offering - September 27, 2013	1,172,000	293,000
Deferred premium on flow-through shares	-	(58,600)
Issued for cash - private placement offering - October 15, 2013	1,920,000	384,000
Issued for cash - flow-through share offering - October 15, 2013	900,000	225,000
Deferred premium on flow-through shares	-	(45,000)
Share issue costs	-	(158,181)
Balance at December 31, 2013	16,740,613	11,591,349
Issued for cash - private placement offering - October 31, 2014	15,100,000	755,000
Share issue costs, net of tax of \$nil	-	(26,238)
Balance at December 31, 2014	31,840,613	12,320,111

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	Number	Amount \$
<b>Warrants</b>		
Balance, December 31, 2012	1,237,400	536,683
Warrant term extension and reprice	-	165,955
Balance at December 31, 2013	1,237,400	702,638
Expiry of Warrants June 24, 2014	(1,237,400)	(702,638)
December 31, 2014	-	-

On September 27, 2013, the Company issued 961,200 common shares at a price of \$0.20 per common share and 1,172,000 flow-through shares at a price of \$0.25 per flow-through share, for total gross proceeds of \$485,240. 14% of these shares were issued to management and directors. \$58,600 was determined to be the implied premium on the flow-through shares. Pursuant to the terms of the subscription agreement the Company was committed to incur \$293,000 of expenditures that qualify as Canadian Exploration Expense ("CEE") for income tax purposes and to renounce the CEE to subscribers. As of December 31, 2013 the Company had incurred the required qualifying expenditures. The common shares and flow-through shares issued in connection with the private placement are subject to a statutory hold period of four months plus one day from the date of completion of the private placement, in accordance with applicable securities legislation. In connection with the financing the Company granted the agents 146,656 agent compensation options to acquire up to 146,656 shares at \$0.30 per share until September 28, 2014. The agent compensation options were valued at \$16,545 using the Black-Scholes option pricing model, assuming volatility of 155%, risk-free interest rate of 1.2%, expected life of 1 year and 0% dividends.

On October 15, 2013, the Company issued 1,920,000 common shares at a price of \$0.20 per common share and 900,000 flow-through shares at a price of \$0.25 per flow-through share, for total gross proceeds of \$609,000. None of these shares were issued to management and directors. \$45,000 was determined to be the implied premium on the flow-through shares. Pursuant to the terms of the subscription agreement the Company was committed to incur \$225,000 of expenditures that qualify as Canadian Exploration Expense ("CEE") for income tax purposes and to renounce the CEE to subscribers. As of December 31, 2013 the Company had incurred the required qualifying expenditures. The common shares and flow-through shares issued in connection with the private placement are subject to a statutory hold period of four months plus one day from the date of completion of the private placement, in accordance with applicable securities legislation. In connection with the financing the Company granted the agents 194,000 agent compensation options to acquire up to 194,000 shares at \$0.30 per share until October 16, 2014. The agent compensation options were valued at \$22,948 using the Black-Scholes option pricing model, assuming volatility of 150%, risk-free interest rate of 1.4%, expected life of 1 year and 0% dividends.

On May 24, 2013 the Company repriced and extended the expiry date of all of the 1,237,400 warrants. The warrants were initially issued with an exercise price of \$1.63 and had an expiry date of June 24, 2013. The exercise price of the share purchase warrants was reduced to \$0.60 and the expiry date was extended to June 23, 2014. The \$165,955 increase in the value of the warrants as a result of the term extension and reprice was recorded as an increase in the deficit on the condensed

# FIRST MOUNTAIN EXPLORATION INC.

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statement of financial position and was determined on May 24, 2013, using a Black-Scholes model assuming volatility of 148%, risk-free interest rate of 1.0%, expected life of 1 year and 0% dividends.

On October 31, 2014 the Company issued 15,100,000 common shares at a price of \$0.05 per common share for gross proceeds of \$755,000. Management and directors subscribed to 4,600,000 of the common shares.

## Per share amounts

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on the exercise of options would be used to purchase common shares at the average price during the year. The weighted average number of shares outstanding is then adjusted by this amount.

The table below summarizes the weighted average number of common shares outstanding used in the calculation of basic and diluted net loss per share:

<b>Years ended December 31,</b>	<b>2014</b>	<b>2013</b>
Weighted average common shares outstanding	19,264,175	12,937,534
Dilutive securities	-	-
<b>Diluted</b>	<b>19,264,175</b>	<b>12,937,534</b>

The calculation of the diluted net loss per share for the years ended December 31, 2014 and 2013 excludes all options, warrants and agent options as the impact would be anti-dilutive due to the net loss realized.

On May 15, 2014 the shareholders of the Company approved a special resolution for the consolidation of the issued and outstanding common shares of the Company on the basis of two and one half (2.5) existing Common Shares for one (1) new common share. On August 28, 2014, the Company executed the two and one half (2.5) to one (1) common share consolidation which reduced the number of outstanding shares from 41,851,534 to 16,740,613. The 2.5 for 1 consolidation affected all the Company's outstanding common shares as at the effective date; as a result, all current and comparative share and per share amounts are presented on a post consolidation basis.

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## 11. Share Based Payments

### Stock option plan

The Company has a stock option plan, under which the Board of Directors may grant options to its directors, officers, employees and consultants to purchase common shares from the Company. Vesting is determined by the Company's Board of Directors. The exercise price of each stock option granted is determined as the closing market price of the common shares on the TSX Venture Exchange at the time of the grant.

<b>Stock options outstanding</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>
Balance at December 31, 2012	\$ 0.98	900,000
Granted	0.25	740,000
Forfeited	1.30	(250,000)
Balance at December 31, 2013	\$ 0.53	1,390,000
Granted	0.05	2,470,000
Forfeited	0.59	(840,000)
Balance at December 31, 2014	\$ 0.21	3,020,000
Exercisable at December 31, 2014	\$ 0.18	1,200,000

The following table summarizes information about stock options outstanding at December 31, 2014:

<b>Number of stock options outstanding</b>	<b>Exercise price</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Exercisable options</b>	<b>Exercise price</b>
50,000	\$ 0.50	1.7	50,000	\$ 0.50
80,000	1.50	2.1	53,333	1.50
140,000	0.28	2.9	93,333	0.28
120,000	0.25	2.3	80,000	0.25
160,000	0.23	3.8	106,667	0.23
2,470,000	0.05	4.9	816,667	0.05
3,020,000	\$ 0.21	4.4	1,200,000	\$ 0.18

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The total fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for new grants as follows:

<b>Years ended December 31,</b>	<b>2014</b>	<b>2013</b>
Share price	\$0.03	\$0.09
Exercise price	\$0.05	\$0.10
Volatility	241%	154%
Expected life	5 years	5 years
Forfeiture rate	10%	10%
Dividends	-	-
Risk-free interest rate	1%	1%
Fair value at grant date	\$0.03	\$0.09

Share-based compensation of \$13,453 was expensed during the year ended December 31, 2014 (2013 - \$167,464) while \$nil of share-based compensation was capitalized (2013 - \$Nil).

## Agent Compensation Options

	<b>Weighted Average Exercise Price</b>	<b>Number of agent options outstanding and exercisable</b>
Balance at December 31, 2012	\$ 0.50	56,000
Agent options expired	0.50	(56,000)
Agent options issued	0.30	340,656
Balance at December 31, 2013	0.30	340,656
Agent options expired	0.30	(340,646)
Balance at December 31, 2014	\$ -	-

All agent compensation options expired during 2014.

## 12. Salaries and Wages

The Company considers its directors and executives to be key management personnel.

Key management personnel compensation for the year ended December 31, 2014 was \$208,333 (2013 - \$270,118) of salaries, employee benefits and consulting fees. In addition \$13,453 of the share based compensation expense during the year ended December 31, 2014 (2013 - \$108,068) was recorded for options held by key management personnel.

Items in the Company's financial statements are primarily disclosed by nature except for compensation costs which are included in general and administrative expenses. Compensation costs of \$282,331 were included in general and administrative expenses during the year ended 2014 (2013- \$ 304,746).

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## 13. Income Taxes

Reconciliation of effective tax rate:

<b>Years ended December 31,</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Loss before taxes	1,910,005	838,102
Combined corporate tax rate	25.0%	25.0%
Expected income tax recovery	477,501	209,525
Non-deductible expenses	(3,363)	(41,866)
Change in deferred tax asset not recognized and other	(473,891)	(63,221)
Flow-through shares renounced	-	(129,500)
Change in estimate	(247)	25,062
	-	-
Flow-through share premium	-	103,600
Deferred income tax recovery	-	103,600

Summary of unrecognized deferred tax assets:

<b>Balance at December 31,</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Property, plant and equipment and exploration and evaluation assets	593,447	681,661
Decommissioning obligation	94,527	114,289
Share issue costs	25,419	57,985
Non-capital losses	1,038,589	792,597
Unrecognized deferred tax asset	1,751,982	1,646,532

At December 31, 2014 the Company has approximately \$7.5 million in tax pools available for deduction against future taxable income.

Included in this tax basis are estimated non-capital loss carry forwards of approximately \$4.2 million that expire in years 2030 to 2034.

## 14. Financial Instruments and Risk Management

At December 31, 2014 and December 31, 2013, cash and cash equivalents consisted of cash held with financial institutions.

The estimated carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates the fair values due to the short-term maturity of these instruments.

The Company's activities expose it to a variety of financial risks. These risks include credit risk, liquidity risk and market risk.

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(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This will arise principally from joint interest partners outstanding receivables.

On entering into any business contract, the extent to which the arrangement exposes the Company to credit risk is considered. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with reputable counterparties. The creditworthiness of new counterparties is assessed and in some instances the Company may require new counterparties to obtain a letter of credit. Receivables from oil and natural gas sales are normally collected on the 25th day of the month following production. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors. In addition, further risk exists with partners, as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from joint venture partners. Only a portion of the Company's operations are conducted jointly with others.

The Company's maximum exposure to credit risk at December 31, 2014 is in respect of accounts receivable of \$100,460. At December 31, 2014 \$18,311 of these receivables were outstanding for over 60 days.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (see Note 2). The Company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when due.

Typically the Company will ensure that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. To achieve this objective, the Company will prepare capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company will utilize authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

The only financial liabilities of the Company at December 31, 2014 were accounts payable and accrued liabilities. The contractual maturities of accounts payable and accrued liabilities are less than one year.

(c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The effect of interest rates increasing by 1% would have a minimal impact on the Company's results.

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(d) Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Prices for oil and natural gas are impacted by not only the relationship between the Canadian and US dollar, but also world economic events that can affect supply and demand levels.

## 15. Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

<b>Years ended December 31,</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Source (use) of cash:		
Accounts receivable	122,438	(197,273)
Prepaid expenses and deposits	(15,311)	(6,665)
Accounts payable and accrued liabilities	(1,136,698)	1,140,400
	<b>(1,029,571)</b>	<b>936,462</b>
Related to operating activities	(187,907)	94,798
Related to investing activities	(841,664)	841,664
	<b>(1,029,571)</b>	<b>936,462</b>
Other cash flow information		
<b>Years ended December 31,</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Interest paid	2,762	-
Interest received	(1,369)	(9,273)

## 16. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain shareholder's confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its oil and natural gas assets. The Company considers its capital structure to include shareholders' equity and working capital (see Note 2). In order to maintain or adjust the capital structure, the Company may issue shares, raise debt and/or adjust its capital spending to manage its projected debt levels.

Management believes that the going concern assumption is appropriate for these financial statements. Management believes that the Company will be able to obtain financing either through the issuance of shares, debt or the sale of assets to fund ongoing operations and exploration and

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development activities. There is no guarantee that the Company will be successful in these endeavors. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these financial statements would require adjustments to the amounts and classifications of assets and liabilities and these adjustments could be significant.

The Company's capital structure is as follows:

<b>As at December 31,</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Current assets	1,020,667	2,051,384
Current liabilities	(329,698)	(1,466,396)
Net working capital	690,969	584,988
Shareholders' equity	1,133,436	2,301,226

## 17. Commitments

The Company is committed to minimum office lease payments at December 31, 2014 as follows:

	<b>\$</b>
2015	66,486
2016	11,081
	<b>77,567</b>