# CHAPARRAL GOLD CORP.

## CONSOLIDATED FINANCIAL STATEMENTS
## (Expressed in United States dollars)

## PERIOD ENDED

## DECEMBER 31, 2013

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Chaparral Gold Corp.

We have audited the accompanying consolidated financial statements of Chaparral Gold Corp., which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of comprehensive loss, cash flows and changes in shareholders' equity for the period from incorporation on September 16, 2013 to 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.

***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Chaparral Gold Corp. as at December 31, 2013 and its financial performance and its cash flows for the period from incorporation on September 16, 2013 to December 31, 2013 in accordance with International Financial Reporting Standards.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada — Chartered Accountants

March 27, 2014

**CHAPARRAL GOLD CORP.**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Expressed in United States dollars)

| | | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and equivalents (Note 6) | $ | 46,108,858 |
| Receivables | | 100,386 |
| Mineral property receivable (Note 7) | | 12,804,326 |
| Prepaid expenses and deposits | | 107,805 |
| Investments (Note 8) | | 383,827 |
| Current assets | | 59,505,202 |
| **Non-current** | | |
| Property, plant and equipment (Note 9) | | 35,303,633 |
| Investment in resource properties (Note 10) | | 49,952,950 |
| Mineral property receivable (Note 7) | | 2,438,876 |
| Non-current assets | | 87,695,459 |
| **Total assets** | $ | 147,200,661 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accruals (Note 11) | $ | 2,766,495 |
| Related party payable (Note 13) | | 59,023 |
| Ecuador closure costs (Note 7) | | 241,603 |
| Current liabilities | | 3,067,121 |
| **Non-current** | | |
| Deferred income tax liability (Note 19) | | 8,160,000 |
| Non-current liabilities | | 8,160,000 |
| **Shareholders' equity** | | |
| Capital stock (Notes 5 and 14) | | 136,089,046 |
| Deficit | | (115,506) |
| Shareholders' equity | | 135,973,540 |
| **Total liabilities and shareholders' equity** | $ | 147,200,661 |

**Nature and continuance of operations** (Note 1)
**Subsequent events** (Note 21)
**Plan of arrangement** (Note 5)
**Other risks and uncertainties** (Note 12)

**Approved on March 27, 2014 by the Directors:**

| | | | |
|---|---|---|---|
| *"Nicholas Appleyard"* | Director | *"W. Michael Smith"* | Director |
| Nicholas Appleyard | | W. Michael Smith | |

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

**CHAPARRAL GOLD CORP.**
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(Expressed in United States dollars)
Period of Incorporation on September 16, 2013 to December 31, 2013

| | | 2013 |
|---|---|---|
| **Expenses** | | |
| Amortization and depreciation | $ | (580) |
| Salaries and employee benefits | | (93,672) |
| Administrative costs | | (79,154) |
| Ecuador closure costs | | (50,000) |
| Total expenses | | (223,406) |
| **Other income** | | |
| Interest income | | 4,375 |
| Unrealized gain on investments | | 66,748 |
| Accretion of receivable | | 35,073 |
| Foreign exchange gain | | 1,704 |
| | | 107,900 |
| **Net loss and comprehensive loss** | $ | (115,506) |
| **Basic and diluted loss after taxes per share** | $ | (0.01) |
| **Weighted average number of common shares outstanding - basic** (Note 14) | | 13,192,865 |

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

**CHAPARRAL GOLD CORP.**
CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in United States dollars)
Period of Incorporation on September 16, 2013 to December 31, 2013

| | 2013 |
|---|---|
| **CASH FLOW (USED IN) OPERATING ACTIVITIES** | |
| Loss for the period | $ (115,506) |
| Adjustments to net loss: | |
| Amortization and depreciation | 580 |
| Unrealized loss on investments | (66,748) |
| Interest income | (4,375) |
| Accretion of mineral property receivable | (35,073) |
| Changes in non-cash working capital items: | |
| Increase in receivables | (14,435) |
| Increase in prepaid expenses and deposits | (14,409) |
| Decrease in accounts payable and accruals | (1,612,140) |
| Related party payable | 4,820 |
| Increase in Ecuador closure costs | 39,811 |
| Cash flow (used in) operating activities | (1,817,475) |
| **CASH FLOW FROM (USED IN) FINANCING ACTIVITIES** | |
| Cash acquired in Plan of Arrangement (Note 5) | 47,965,242 |
| Net cash flow from financing activities | 47,965,242 |
| **CASH FLOW (USED IN) INVESTING ACTIVITIES** | |
| Resource property expenditures | (17,122) |
| Interest received | 446 |
| Property, plant and equipment expenditures | (22,233) |
| Net cash flow (used in) investing activities | (38,909) |
| **Change in cash and equivalents for the period** | 46,108,858 |
| **Cash and equivalents, end of period** | $ 46,108,858 |

**Supplemental disclosure with respect to cash flows** (Note 18)

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

**CHAPARRAL GOLD CORP.**
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in United States dollars, except share amounts)
December 31, 2013

| | Capital Stock | | | | | |
|---|---|---|---|---|---|---|
| | Number of shares | Amount | | Deficit | | Total equity |
| **Period of incorporation to December 31, 2013** | | | | | | |
| Issued under Plan of Arrangement | 117,636,376 | $ 136,089,046 | $ | - | $ | 136,089,046 |
| Net loss for the period | | | | (115,506) | | (115,506) |
| **Balance December 31, 2013** | 117,636,376 | $ 136,089,046 | $ | (115,506) | $ | 135,973,540 |

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

(Expressed in United States dollars)

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Chaparral Gold Corp, (the "Company" or "Chaparral") is a British Columbia incorporated corporation with its common shares listed for trading on The Toronto Stock Exchange (TSX: CHL). The Company was incorporated, on September 16, 2013, as a wholly-owned subsidiary of International Minerals Corporation ("IMC"), in connection with a statutory plan of arrangement (the "Arrangement") that closed on December 20, 2013, involving Chaparral, IMC, Hochschild Mining plc. ("HOC") and HOC Holdings Canada Inc. ("HOC Canada", a wholly-owned subsidiary of HOC). Under the terms of the Arrangement, HOC indirectly acquired, through HOC Canada, all of the issued and outstanding common shares of IMC and IMC concurrently transferred its non-Peruvian assets (including IMC's cash and the Goldfield and Converse properties) and certain assumed liabilities of IMC to Chaparral. Each IMC shareholder received $2.38 in cash and one common share of Chaparral for each common share of IMC it held prior to the Arrangement. Chaparral issued a total of 117,636,376 common shares to the former shareholders of IMC pursuant to the Arrangement. On completion of the Arrangement, the former shareholders of IMC became the shareholders of Chaparral, and all of the right, title and interest of IMC in the Goldfield and Converse properties are now held by Chaparral (see Note 5).

The Company is in the business of exploring, developing and exploiting its mineral resource properties in Nevada, USA, including the 100%-owned Goldfield and Converse properties. The head office and principal address of the Company is 7950 E Acoma Drive, Suite 211, Scottsdale, Arizona, 85260, USA.

On February 19, 2014, Waterton Precious Metals Fund II Cayman LP ("Waterton") made an unsolicited, hostile bid to acquire 100% of the issued and outstanding shares of the Company for cash consideration of C$0.50 per common share. The Company's Board of Directors has unanimously recommended that shareholders reject the Waterton bid. On March 25, 2014, Waterton filed a notice of extension to its hostile bid and extended the term of the bid to April 11, 2014. As this tender offer is in process, the Company cannot predict the outcome of the Waterton take-over proposal**.**

The Company believes it has adequate funds available to meet its operating and administrative obligations for the upcoming fiscal and calendar year. However, for significant capital projects such as the Gemfield development project in Nevada, additional financing will be required, likely in 2015.

| Period Ended | December 31, 2013 |
|---|---|
| Working capital | $ 56,438,081 |

## 2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

### a) **Statement of Compliance**

These consolidated financial statements for the period ended December 31, 2013, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Company's Board of Directors on March 27, 2014.

### b) **Transfer of Assets and Basis of Measurement**

The preparation of the December 31, 2013 annual audited financial statements followed the guidance for the preparation of financial statements for common control business combination transactions. IFRS does not provide specific guidance on accounting for common control transactions, and therefore the Company used the guidance in *IAS 8 Accounting Policies, Changes in Estimates and Errors* to determine which policies were appropriate for the transfer

## 2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION (cont'd…)

b) **Transfer of Assets and Basis of Measurement** (cont'd...)

of assets from IMC to Chaparral and the assumption by Chaparral of certain IMC liabilities. While certain accounting options existed, the Company chose to apply book value accounting (or carry-over basis) where the recording of the assets and liabilities that Chaparral acquired from IMC were done so at book value at the date of the transfer.

These consolidated financial statements have been prepared using the historical cost basis specified by IFRS for each type of asset, liability, income and expense as set out in the accounting policies below, except for certain financial assets and liabilities which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

c) **Functional Currency**

These consolidated financial statements are presented in United States ("US") dollars, except as otherwise noted, which is the functional currency of the Company and each of the Company's subsidiaries.

d) **Critical Judgments**

A critical judgment that the Company's management has made in the application of the accounting policies presented in Note 3, apart from the estimation presented in Notes 2 (b) and (e) that has the most significant effect on the amounts recognized in these consolidated financial statements is the functional currency. The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates; the Company has determined the functional currency of each entity to be the US dollar. Such determination involves certain judgments to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

The other critical judgment impacting the financial statements is the decision to move forward with the Gemfield project towards construction of a mine. This decision assumes the gold price will continue at or above current market levels and the project will be viable.

e) **Significant estimates and assumptions**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised.

Areas that require significant estimates and assumptions as the basis for determining the stated amounts include, but are not limited to, the following:

## 2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION (cont'd…)

**e) Significant estimates and assumptions** (cont'd…)

*i) Impairments*

The Company assesses its plant and equipment assets and resource exploration properties annually or when circumstances are required to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance.

*ii) Mineral reserves*

Proven and probable mineral reserves are the economically mineable portion of the Company's measured and indicated mineral resources demonstrated by, at least, a preliminary feasibility study.

The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by Qualified Persons.

The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret data. The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of commodity prices, future capital requirements and production costs, together with geological assumptions and judgments made in estimating the recovery rate, size and grade of the ore body.

Changes in the proven and probable reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of resource properties, exploration and evaluation properties, plant and equipment, site reclamation and closure provisions, recognition of deferred tax amounts and depreciation and depletion.

*iii) Investments*

The fair value of the Company's publicly traded investments is determined by reference to their quoted closing trading price on public exchanges at the reporting date. Shares of privately held companies are recorded at historical cost unless the impairment review determines that an adjustment to the carrying value is necessary.

*iv) Deferred taxes*

The Company's provision for income taxes is estimated based on the expected annual effective tax rate. The current and deferred components of income taxes are estimated based on forecasted movements in temporary differences. Changes to the expected annual effective tax rate and differences between the actual and expected effective tax rate and between actual and forecasted movements in temporary differences will result in adjustments to the Company's provision for income taxes in the period changes are made and/or differences are identified.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax law in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles.

## 2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION (cont'd…)

### e) Significant estimates and assumptions (cont'd…)

*iv) Deferred taxes* (cont'd…)

The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence.

Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized and recognized income tax assets.

*v) Share-based compensation*

Share-based compensation is measured at fair value. Options and warrants are measured using the Black-Scholes options pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to profit or loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of option. Changes in these input assumptions can significantly affect the fair value estimate.

*vi) Mineral property receivables*

The carrying value of the receivables was recorded at fair value on initial recognition and the Company revalues the carrying value at each reporting date and as other circumstances require, including the evaluation of possible impairment.

### f) Subsidiaries of the Company

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company transactions and balances have been eliminated upon consolidation.

The Company's significant subsidiaries are as follows:

| % Owned | Subsidiary of the Company | % Owned | Subsidiary / Associate Holdings | % Owned | Principal Holdings |
|---|---|---|---|---|---|
| 100 | **Ecuadorian Minerals Corporation (US)** | 100 | Metallic Goldfield Inc. (US) | 100 | Goldfield property (USA) |
| | | 100 | Metallic Nevada Inc. (US) | 100 | Converse property (USA) |
| | | 100 | Metallic Ventures (US) Inc. (US) | | Exploration staff |

## 3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRS. The significant accounting policies adopted by the Company are as follows:

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

### Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation.

Control exists where the parent entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

### Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency ("foreign currencies") are translated at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at that date. Exchange gains and losses are recognized on a net basis in profit or loss for the period.

### Cash and equivalents

Cash is comprised of cash on hand, demand deposits, and money market funds, all of which are held in high-quality financial institutions. Cash equivalents include short-term, highly liquid investments with original maturities of three months or less, that are readily convertible to cash and which are subject to an insignificant risk of change in value.

### Property, plant and equipment

Property, plant and equipment ("PPE") is stated at cost less accumulated depreciation, amortization and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Upon sale or abandonment of any plant and equipment, the cost and related accumulated depreciation and impairment losses are written off and any gains or losses thereon are recognized in profit or loss for the period. When the parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The cost of replacing or overhauling a component of an item of plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. Maintenance and repairs of a routine nature are charged to profit or loss as incurred.

An item of PPE is reclassified when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset (determined as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized through profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

### Depreciation and amortization

All PPE assets are currently being depreciated using the straight-line method over the estimated useful lives of the individual assets at the following annual rates.

| | |
|---|---|
| Vehicles and mining equipment | 10% to 33% |
| Furniture and equipment | 10% to 20% |
| Computer/communication equipment | 20% |
| Computer software | 33% |
| Leasehold improvements | 20% |

Depreciation commences on the date the asset is available for use.

### Investment in resource properties, exploration and evaluation assets

Exploration costs incurred on resource properties prior to the Company obtaining the legal right to explore a resource property are expensed in the period in which they are incurred.

Once the legal right to explore a resource property has been acquired, all costs related to the acquisition, exploration and evaluation of the resource property are capitalized on a property by property basis. These direct expenditures include costs typically associated with the exploration for mineral resources, including applicable administrative costs and deprecation of equipment used during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including an allocation of general administrative overhead costs, are expensed in the period in which they occur.

Exploration and evaluation expenditures for the Company's investments in a resource property are carried forward as an asset provided that one of the following conditions are met; (i) such costs are expected to be recouped in full through successful development and exploration of the resource property, or alternatively by sale; or (ii) if exploration and evaluation activities on the resource property have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, active field work and other activities in relation to the resource property are continuing or are planned for the foreseeable future.

The carrying values of capitalized amounts are reviewed annually or whenever indicators of impairment are present. In the case of undeveloped resource properties, there may only be inferred resources to allow management to form a basis for the impairment review. The review is based on the Company's intentions for the development of such a property. If a resource property does not prove viable, all unrecoverable costs associated with the property are charged through profit or loss at the time the impairment determination is made.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined and the decision to develop it has been made, the property is considered to be a mine under development and is classified as "mining assets" in PPE. Investment in resource property expenditures accumulated to that date is tested for impairment before the resource property costs are transferred to PPE.

The amounts shown for investments in resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing and permitting to complete the development of the properties, and the future profitable production from the disposition of the metals produced from the properties.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

**Reclamation and decommissioning liabilities**

The Company recognizes a liability for legal and constructive obligations relating to the reclamation of investments in resource properties and PPE when those obligations arise from the acquisition, construction, development, or normal operation of those assets. Such reclamation and decommissioning costs must be recognized at fair value, when a reliable estimate of fair value can be made in the period in which it is incurred. The fair value is added to the carrying value of the asset and amortized through profit or loss on a systematic basis over its estimated useful life. Fair value is measured based on the Company's best estimate of the asset's cash outflows. Present value must be used where the effect of the time value of money is material. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation.

**Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The accretion of the discount is charged to profit or loss as finance expense.

**Share-based compensation**

Certain employees, directors or consultants of the Company receive a portion of their remuneration in the form of options for common shares. The fair value of the options, determined at the date of the grant, is charged to profit or loss, with an offsetting credit to reserve, over the vesting period. If and when the share options are exercised, the applicable original amounts of reserve are transferred to issued capital.

The fair value of share-based compensation is determined at the date of the grant. The estimated fair value of share options is measured using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option and share price volatility. The expected term of options granted is determined based on historical data on the average hold period before exercise, expiry or cancellation. Expected volatility is estimated with reference to the historical volatility of the share price of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

**Share-based compensation** (cont'd...)

The estimates involve inherent uncertainties and the application of management's judgement. The cost of share-based compensation is recognized over the vesting period of the option. The total amount recognized as an expense is adjusted to reflect the number of options expected to vest at each reporting date. At each reporting date, the cumulative compensation expense representing the extent to which the vesting period has passed and management's best estimate of the share options that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in profit or loss with a corresponding charge to reserves.

Share-based compensation to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

No expense is recognized for share options that do not ultimately vest. Charges for share options that are forfeited before vesting are reversed from reserves and expense. For those share options that expire unexercised after vesting, the recorded value is reversed from reserves and retained earnings.

**Issued capital**

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

**Financial assets**

Financial assets, other than derivatives, are classified as held to maturity, available-for-sale, loans and receivables or fair value through profit or loss ("FVTPL").

Financial assets classified as available-for-sale are measured initially at fair value plus transaction costs and subsequently at fair value with unrealized gains and losses recognized in other comprehensive income except for financial assets that are considered to be impaired, in which case the impairment loss is recognized in profit or loss.

The Company has not classified any assets as available-for-sale for any period presented.

Financial assets classified as loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset, or, where appropriate, a shorter period. The Company's receivables are classified as loans and receivables.

Financial assets classified as FVTPL are measured on initial recognition and subsequently at fair value with unrealized gains and losses recognized in profit and loss. Transaction costs are expensed for assets classified as FVTPL. The Company has classified its cash and equivalents and investments as FVTPL.

**Financial liabilities**

Other financial liabilities, which are accounts payable and accruals, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Impairment

*i. Impairment of financial assets*

At each reporting date, or when circumstances require, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets, other than financial assets classified as FVTPL, is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence that the estimated future cash flows of the financial asset or the group of financial assets have been negatively impacted, and the impact can be reliably measured.

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.

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 asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against trade and other receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

With the exception of the available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the impaired financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect to available-for-sale equity instruments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

*ii. Impairment of non-financial assets*

At each reporting date, or when circumstances require, the Company reviews the carrying amounts of its non-financial assets to determine whether there are any indications of impairment. If any such indication exists, such as decreases in metal prices, an increase in operating costs, a decrease in mineable reserves, or the recoverable amount, the Company also considers the net carrying amount of the asset, the ongoing costs required to maintain and operate the asset, and the use, value and condition of the asset.

Where the asset does not generate cash inflows that are independent of other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. 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 group of assets. This generally results in the Company evaluating its non-financial assets on a property by property basis.

The recoverable amount is determined as the higher of fair value less costs to sell and the asset's value in use. Fair value is determined with reference to discounted estimated future cash flow analysis or to recent transactions involving dispositions of similar properties. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated future production, recoverability of reserves, estimated future commodity prices and the expected future operating and capital costs.

The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

**Impairment** (cont'd…)

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense in profit or loss. Non-financial assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed.

Where the impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depletion and depreciation) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in profit or loss.

**Taxes**

*i. Current tax*

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year.

Current tax for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the reporting date, and includes adjustments to tax payable or recoverable in respect of previous years.

*ii. Deferred tax*

Deferred tax is accounted by providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax liabilities are recognized for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences, carry forwards of unused tax losses and tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized, except where the deferred tax asset related to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred tax asset is recorded.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates and tax laws enacted or substantively enacted at the reporting date. Current and deferred tax relating to items recognized directly in equity is recognized in equity and not in profit and loss.

*iii. Mining taxes and government imposed royalties*

Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for items comprising temporary differences.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the earnings and comprehensive income of the Company by the weighted average number of common shares outstanding during the period. For purposes of calculating diluted earnings per share, the proceeds from the potential exercise of dilutive stock options and share purchase warrants with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period. Share options and share purchase warrants are included in the calculation of dilutive EPS only to the extent that the market price of the common shares exceeds the exercise price of the share options or share purchase warrants, except where such conversion would be anti-dilutive.

### Comprehensive income

Comprehensive income is the change in the Company's shareholders' equity that results from transactions and other events arising from anything other than the Company's normal operations. It includes items that would not normally be included in net earnings, such as unrealized gains and losses on available for sale investments. Comprehensive income accounting recommendations require certain gains or losses that would otherwise be recorded as part of net earnings to be presented in other comprehensive income ("OCI") until it is considered appropriate to recognize such gains or losses in net earnings.

Accumulated OCI is presented as a separate component within shareholders' equity. The presentation of accumulated OCI in the shareholders' equity section of the consolidated statement of financial position is not required because the Company has not reported OCI for the period presented.

## 4. CHANGES IN ACCOUNTING STANDARDS

A number of new standards, and amendments to standards and interpretations, will become effective subsequent to December 31, 2013, and thus have not been applied in preparing these consolidated financial statements. Those that are expected to be applicable to the consolidated financial statements of the Company are discussed below.

### Financial Instruments

The IASB intends to replace *IAS 39-Financial Instruments: Recognition and Measurement* in its entirety with *IFRS 9-Financial Instruments* which is intended to reduce the complexity for the classification and measurement of financial instruments. The IASB recently suspended the originally planned effective date of January 1, 2015 and at present the effective date has not been determined. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

### Levies imposed by governments

In May 2013, the IASB issued *IFRIC 21-Levies*, an interpretation of *IAS 37- Provisions, Contingent Liabilities and Contingent Assets*, on the accounting for levies imposed by governments. IAS 37 sets out the criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC clarifies that the obligating event that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the impact the final interpretation is expected to have on its consolidated financial statements.

(Expressed in United States dollars)

## 5. PLAN OF ARRANGEMENT

On December 20, 2013, as more fully described in Note 1, Chaparral was "spun-out" of IMC pursuant to the Arrangement with Hochschild Mining plc. The Company has chosen to account for this transaction as an acquisition of the net assets at their book value on the closing date, whereby the value of the shares issued is equal to the value of the net assets acquired. The breakdown of the net assets acquired is as follows:

| | December 20, 2013 |
|---|---:|
| Cash and equivalents | 47,965,242 |
| Receivables | 12,861,180 |
| Prepaid expenses and deposits | 93,396 |
| Investments | 317,079 |
| Property, plant and equipment | 35,230,241 |
| Investment in resource properties | 49,923,955 |
| Other long-term assets | 2,428,972 |
| Total assets acquired | 148,820,065 |
| | |
| Less: | |
| Current liabilities assumed | (4,571,019) |
| Deferred income tax liability | (8,160,000) |
| | |
| Net assets acquired and ascribed to common shares issued | 136,089,046 |

In connection with this transaction, IMC incurred transaction costs estimated at $5.9 million which included legal and professional fees of $1.2 million; severance to employees in the USA, Peru and Ecuador of $4.4 million and other costs of $0.3 million. Because not all of the IMC transaction costs were paid prior to closing, Chaparral assumed $3.9 million of these liabilities and received cash from IMC equal to this liability assumed.

Furthermore, in the Management Information Circular of IMC dated November 26, 2013, Appendix K, the pro forma "Consolidated Carve-Out Financial Statements of Chaparral Gold Business" were presented and the accounting policies used to derive these statements were also discussed. The information below provides a roll-forward of the change in the balance sheet of Chaparral as at December 20, 2013 to the balance sheet of Chaparral as at December 31, 2013.

| | Chaparral December 31, 2013 | Change | Note |
|---|---:|---:|---|
| Cash and equivalents | 46,108,858 | (1,856,384) | 1 |
| Receivables | 12,904,712 | 43,531 | 2 |
| Prepaid expenses and deposits | 107,805 | 14,409 | |
| Investments | 383,827 | 66,748 | 3 |
| Property, plant and equipment | 35,303,633 | 73,392 | 4 |
| Investment in resource properties | 49,952,950 | 28,995 | |
| Other long-term assets | 2,438,876 | 9,904 | 2 |

- continued-

(Expressed in United States dollars)

## 5. PLAN OF ARRANGEMENT (cont'd…)

| | Chaparral December 31, 2013 | Change | Note |
|---|---|---|---|
| (cont'd…) | | | |
| Accounts payable and accruals | 2,766,495 | (1,548,529) | 5 |
| Related party payable | 59,023 | 4,820 | |
| Ecuador closure costs | 241,603 | 39,811 | |
| Deferred income tax liability | 8,160,000 | - | |

Notes:
The change in balance sheet items for Chaparral since period of inception consists primarily of the following:
1. Payment of IMC liabilities including $1.4 million severance
2. Accretion of mineral property receivable
3. Unrealized gain
4. Gemfield spending on permitting
5. Paid severance

## 6. CASH AND EQUIVALENTS

Cash and equivalents include (see Note 5):

| Period Ended | December 31, 2013 |
|---|---|
| Corporate bank accounts | $ 36,778,812 |
| Investment savings account (interest rates of 0.04% - 0.5%, various maturities) | 9,330,046 |
| | $ 46,108,858 |

## 7. MINERAL PROPERTY RECEIVABLE

The mineral property receivable originates from the sale by IMC of the Rio Blanco exploration property in Ecuador, which receivable was assigned to Chaparral in the Arrangement.

The sale of Rio Blanco to a private international company closed in June 2013. The timing of future payments is based upon governmental approvals to extend the developmental time frame for the project with $5 million to be received no later than December 2014 and an additional $9 million to be received no later than June 2015. These amounts may be payable earlier if certain additional governmental approvals are granted and because management expects such approvals to be granted within the next twelve months, the amounts have been classified as a current item. A final payment of $4 million is due upon commencement of commercial production at Rio Blanco, which is expected to occur in the next 4 to 5 years.

The estimated carrying value of the receivable is **$**15,243,202, with the current portion being $12,804,326 and the long-term portion $2,438,876. The current portion was discounted at a rate of 7% and the long term portion at a rate of 15%, with the difference reflecting management's judgement as to risk and liquidity considerations inherent in each payment.

(Expressed in United States dollars)

## 8. INVESTMENTS

The following tables set out the movement of the Company's investments.

| Company Name | Number of Shares | Carrying Value December 31, 2013 |
|---|---|---|
| *Publicly traded* | | |
| Galena International Resources | 208,333 | $ 7,792 |
| Newstrike Capital | 19,009 | 13,331 |
| Colombian Mines Corp. | 333,300 | 77,918 |
| Sumatra Copper and Gold Limited | 710,000 | 74,360 |
| Santa Barbara Resources Limited (Note 13) | 1,400,000 | - |
| HMZ Metals Inc. | 4,000,000 | - |
| International Northair Mines | 1,731,000 | 210,426 |
| *Privately held* | | |
| Oryx Mining and Exploration Limited | 500,000 | - |
| BuenaVista Gold plc | 1,250,000 | - |
| Caribbean Copper and Gold Corporation | 1,200,000 | - |
| | | $ 383,827 |

| Period Ended | December 31, 2013 |
|---|---|
| Beginning balance (Note 5) | $ 317,079 |
| Unrealized gain | 66,748 |
| Ending balance | $ 383,827 |

During the period, the Company did not sell any of it investments in publicly traded companies and on December 20, 2013, when the shares of Oryx Mining and Exploration Limited and BuenaVista Gold plc (the private companies) were transferred from IMC to the Company, the transfers were done at nil value, which was the carrying value of such investments at the transfer date as determined by the management of IMC.

## 9. PROPERTY, PLANT AND EQUIPMENT ("PPE")

| | Office equipment and furniture | Computer hardware and software | Vehicles | Leasehold improvements | Project under development (Gemfield) | Total PPE |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Transferred from Plan of Arrangement | $ 81,856 | $ 777,222 | $ 362,663 | $ 24,020 | $ 35,000,607 | $ 36,246,368 |
| Additions | - | 12,580 | - | - | 64,165 | 76,745 |
| Disposals | - | - | - | - | - | - |
| Balance at December 31, 2013 | $ 81,856 | $ 789,802 | $ 362,663 | $ 24,020 | $ 35,064,772 | $ 36,323,113 |
| **Accumulated depreciation** | | | | | | |
| Cost transferred from Plan of Arrangement | $ 69,575 | $ 718,545 | $ 212,820 | $ 15,187 | $ - | $ 1,016,127 |
| Depreciation for the period | 305 | 1,102 | 1,840 | 106 | - | 3,353 |
| Balance at December 31, 2013 | $ 69,880 | $ 719,647 | $ 214,660 | $ 15,293 | $ - | $ 1,019,480 |

-continued-

(Expressed in United States dollars)

## 9. PROPERTY, PLANT AND EQUIPMENT ("PPE") (cont'd…)

| | Office equipment and furniture | Computer hardware and software | Vehicles | Leasehold improvements | Project under development (Gemfield) | Total PPE |
|---|---|---|---|---|---|---|
| (cont'd…) | | | | | | |
| **Carrying amounts** | | | | | | |
| Transferred from Plan of Arrangement (Note 5) | $ 12,281 | $ 58,677 | $ 149,843 | $ 8,833 | $ 35,000,607 | $ 35,230,241 |
| At December 31, 2013 | $ 11,976 | $ 70,155 | $ 148,003 | $ 8,727 | $ 35,064,772 | $ 35,303,633 |

## 10. INVESTMENT IN RESOURCE PROPERTIES, EXPLORATION AND EVALUATION ASSETS

| 2013 | Beginning Balance at Date of Transfer (Note 5) | Additions | Balance, End of Period |
|---|---|---|---|
| Goldfield Property, USA | $ 27,989,061 | $ 26,984 | $ 28,016,045 |
| Converse Property, USA | 21,934,893 | 2,012 | 21,936,905 |
| Total Resource Properties | $ 49,923,954 | $ 28,996 | $ 49,952,950 |

**Title to resource properties**

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of title to certain claims. The Company has diligently investigated rights of ownership of all of the mineral concessions in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, this should not be construed as a guarantee of title. Concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

**Goldfield Project, Nevada, USA**

The Company has a 100% interest in the Goldfield property. Certain resource deposits on the property are subject to net smelter return ("NSR") royalties ranging from zero to 5.0%, with certain buy-down provisions. The Company has estimated annual lease payments of $142,000 to maintain the right to explore a portion of the property, pursuant to certain lease agreements.

**Converse Project, Nevada, USA**

The Company has a 100% interest in the Converse gold property also located in Nevada. The property is subject to NSR royalties ranging from zero to 5.0%, with certain buy-down provisions. The Company has estimated annual lease payments of $145,000 to maintain the right to explore a portion of the property, pursuant to certain lease agreements.

(Expressed in United States dollars)

## 11. ACCOUNTS PAYABLE AND ACCRUALS

As at December 31, 2013, the accounts payable and accruals consist of: $2,271,350 accrued for severance payments; $59,023 payable to related party; $241,603 accrued for Ecuador closure costs; and $495,145 in other accruals. Of this total, $2,755,749 is related to liabilities assumed from IMC and remained unpaid at December 31, 2013.

## 12. OTHER RISKS AND UNCERTAINTIES

In 2013 and 2014, Metallic Ventures (US) Inc (“Ventures”), an indirect wholly-owned subsidiary of the Company, received correspondence from the United States Environmental Protection Agency (the “EPA”) stating that the EPA was seeking to determine the nature and extent of certain alleged contamination at smelters operated near Eureka, Nevada during the late 1800s and to identify activities and parties that may have contributed to this alleged contamination. Ventures was contacted because it may or may not have acquired certain companies involved with these smelters when it acquired a portion of its royalty interest in the Ruby Hill Mine in 2007. To date, the EPA has not indicated that Ventures has any liabilities with respect to this matter nor has the EPA made any demand for compensation from Ventures. At the present time, it is impossible to ascertain if Ventures has or may have any responsibility for assisting in the remediation of the site in accordance with the authority granted under the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”).

## 13. RELATED PARTY TRANSACTIONS

The Company’s related parties with whom the Company had transactions with during the period, are as follows:

| Related Parties | Relation with the Company | Nature of Transaction |
|---|---|---|
| | | |
| Rod McKeen - Axium Law Corp. | Director | Legal consulting |

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

a) Paid or accrued legal fees of $6,532 for services provided by a firm in which one director of the Company is a partner or principal. The Company expensed the full amount of these fees and as at December 31, 2013, the account payable to this firm totalled $59,023.

b) At December 31, 2013, the Company held 1,400,000 common shares of Santa Barbara Resources Limited, which has a director, Rod McKeen, in common with the Company (Note 8).

The summary of amounts payable to and from related parties is as follows:

| Period Ended | December 31, 2013 |
|---|---|
| Accounts payable to related parties for fees | $ 59,023 |

The total remuneration and benefits recorded on an accrual basis by the Company to its key executives is as follows:

| Period Ended | December 31, 2013 |
|---|---|
| Short-term remuneration | $ 26,192 |

The key executives with the power and responsibility directly or indirectly, to plan, direct and control the operations of the Company are its Executive Chairman, President and CEO, and CFO.

## 14. CAPITAL STOCK AND STOCK OPTIONS

a) **Authorized**

The Company is authorized to issue an unlimited number of common shares without par value.

b) **Issuances**

During the period ended December 31, 2013, 117,636,376 common shares were issued pursuant to the Arrangement with HOC, as discussed in Note 1.

c) **Stock options**

The Company has an incentive stock option plan in place under the rules of the Toronto Stock Exchange pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up to a maximum of 11,763,637 common shares of the Company. Under the plan, the exercise price of each option is not less than the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the Board of Directors. The Company did not grant stock options during period ended December 31, 2013, but 2,530,000 options were granted subsequent to year end.

## 15. CAPITAL RISK MANAGEMENT

The objective when managing capital is to safeguard the Company’s ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders, and have sufficient funds on hand to meet the its exploration and development plans. The Company considers shareholders’ equity as its capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, repurchase shares, sell assets, incur debt, or return capital to shareholders. Currently, the Company has no long term debt outstanding. Due to the cyclical nature of the industry, there is no guarantee that when the Company needs to raise capital it will be able to do so.

## 16. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the Board of Directors of the Company.

*Liquidity risk*

Liquidity risk is managed by the Company by maintaining sufficient cash and equivalents to meet current liabilities and other expenditures as they become due in the ordinary course of business. If the Company requires external financing it will endeavor to obtain such financing from debt or equity markets. There can be no assurance that such third party financing will be available to the Company as and when such financing is required.

*Credit risk*

The Company’s credit risk is attributable to its liquid financial assets including the cash and equivalents and the receivable pertaining to the mineral property receivable. The Company limits its exposure to credit risk on its liquid assets by maintaining its cash and equivalents with high-credit quality financial institutions in the United States and Canada. Timing of the receipt of the Rio Blanco receivable is contingent upon certain government approvals and the ability of the buyer to advance Rio Blanco into production. Risk has been factored into the value of the receivable by discounting installments by 7% for the short term receivable and by 15% for the long term receivable. Investments currently include a number of public junior exploration companies and these securities remain subject to market

## 16. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (cont'd…)

*Credit risk* (cont'd…)

fluctuations, stock market liquidity, foreign exchange movements, changing market values and illiquidity for the equity investments in private companies.

*Currency risk*

The Company's funds are held in US and Canadian currencies. Its operations are in the United States. The Company is not materially exposed to foreign exchange risk at the present time.

*Sensitivity analysis*

The Company is exposed to foreign currency risk on fluctuations related to cash and equivalents, investments and accounts payable which are denominated in Canadian dollars. As at December 31, 2013, net financial assets totaling $2,174,990 were held in Canadian dollars.

Based on the above net exposure as at December 31, 2013, and assuming all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase/decrease of approximately $217,499 in the Company's net income.

*Interest rate risk*

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and equivalents. Cash and equivalents have been invested in short-term investments to maintain liquidity and preserve capital. There is minimal risk that the Company would recognize any loss as a result of the decrease in the fair value of any banker's acceptance notes, guaranteed investment certificates, money market funds or term deposits included in cash and equivalents as they are held with large high-quality credit financial institutions in Canada and the United States.

*Price risk*

The Company is exposed to price risk with respect to equity prices reported as investments. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on the economic value of its minerals properties sustained changes in the prices of gold and silver. The Company's investments in public companies are subject to fair value fluctuations arising from changes in the equity markets and their individual performance.

**Financial assets**

The fair value of cash and equivalents and investments are based on Level 1 (quoted prices readily and regularly available) inputs of the fair value hierarchy, except for privately held investments (Oryx Mining and Exploration Ltd. and BuenaVista Gold plc), which are based on Level 3 and carried at historical cost.

## 16. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (cont'd...)

**Financial assets** (cont'd...)

The estimated fair value of the Company's remaining financial assets and liabilities approximate their carrying value. The estimation of fair value of the mineral property receivable is described in Note 7. The exposure of the Company's financial assets to interest rate and currency risk at December 31, 2013 is as follows:

| Stated in US Dollars | Level | Canadian Dollar | US Dollar | Other | Total |
|---|---|---|---|---|---|
| *Cash and equivalents* | | | | | |
| Floating rate financial assets | 1 | $ 2,025,107 | $ 44,083,751 | $ - | $ 46,108,858 |
| *Other financial assets* | | | | | |
| Investments – tradeable | 1 | 309,467 | - | 74,360 | 383,827 |
| Investments – private | 3 | - | - | - | - |
| Receivables | | 21,043 | 79,343 | - | 100,386 |
| Mineral property receivable | | - | 15,243,202 | - | 15,243,202 |
| Total | | $ 2,355,617 | $ 59,406,296 | $ 74,360 | $ 61,836,273 |

**Financial liabilities**

The estimated fair value of all of the Company's financial liabilities is equal to their carrying values due to their short-term nature. The exposure of the Company's financial liabilities to interest rate and currency risk at December 31, 2013, is as follows:

| Stated in US Dollars | Canadian Dollar | US Dollar | Total |
|---|---|---|---|
| Accounts payable and accruals | $ 121,604 | $ 2,644,892 | $ 2,766,496 |
| Due to related parties | 59,023 | - | 59,023 |
| Total | $ 180,627 | $ 2,644,892 | $ 2,825,519 |

## 17. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition, exploration, development and exploitation of resource properties located in the United States.

| | Property, plant and equipment | Investment in resource properties |
|---|---|---|
| December 31, 2013 | | |
| USA | $ 35,303,633 | $ 49,952,950 |

(Expressed in United States dollars)

## 18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the Company for the period ended December 31, 2013, were as follows:

a) Included in investment in resource properties are the following amounts: $223 that relates to amortization of other PPE and $22,545 that relates to accounts payable and accruals. Included in PPE are the following amounts: $2,549 that relates to amortization of other PPE and $210,504 that relates to accounts payable and accruals.

b) The acquisition of net assets of IMC (Note 5), including cash of $47,965,242, in exchange for the issuance of 117,636,376 shares at a value of $136,089,046.

During the period ended December 31, 2013, the Company paid income taxes of $nil.

## 19. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | | 2013 |
|---|---|---|
| Loss from continuing operations for the period | $ | (115,506) |
| Expected income tax (recovery) | $ | (30,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | | (15,000) |
| Permanent differences | | (9,000) |
| Change in unrecognized deductible temporary differences | | 54,000 |
| Total income tax expense (recovery) | $ | - |

The significant components of the Company's deferred tax assets and liabilities are as follows:

| | | 2013 |
|---|---|---|
| Deferred tax assets (liabilities) | | |
| Investment in resource properties and project under development | $ | (16,650,000) |
| Non-capital losses available for future periods | | 8,490,000 |
| Net deferred tax liability | $ | (8,160,000) |

The significant components of the Company’s unrecognized temporary differences and unused tax losses are as follows:

| | Expiry Date Range | 2013 |
|---|---|---|
| Non-capital losses available for future periods | 2014 - 2032 | 62,000 |
| Investments | No expiry | 384,000 |

Tax attributes are subject to review, and potential adjustment, by tax authorities.

(Expressed in United States dollars)

## 20. COMMITMENTS

The Company has operating lease agreements for office and warehouse space. These agreements require the Company to make the following lease payments on a fiscal year basis:

| Office/ Warehouse Lease Commitments | | USA |
|---|---|---|
| 2014 | $ | 155,174 |
| 2015 | | 157,399 |
| 2016 | | 95,969 |
| 2017 | | 81,090 |
| 2018 | | 20,421 |
| **Company Total** | $ | 510,053 |

## 21. SUBSEQUENT EVENTS

Significant events for the Company subsequent to December 31, 2013, were:

a) In February 2014, the Company's Board of Directors granted 2,530,000 stock options to directors, employees and consultants;

b) On February 18, 2014, the Company was advised by Waterton Precious Metals Fund II Cayman LLP (a foreign private investment fund) that it was proceeding with an unsolicited, hostile take-over offer for 100% of the issued and outstanding common shares of the Company at a price of C$0.50 per share. The Board of Directors of the Company has unanimously recommended that shareholders reject the Waterton bid. This hostile bid was launched on February 19, 2014. On March 25, 2014, Waterton filed a notice of extension to its hostile bid and extended the term of the bid to April 11, 2014.