



CONSOLIDATED FINANCIAL STATEMENTS

Expressed in US dollars

For the years ended March 31, 2014 and 2013



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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Evolving Gold Corp.

We have audited the accompanying consolidated financial statements of Evolving Gold Corp. and its subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2014 and 2013 and the consolidated statements of comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Evolving Gold Corp., and its subsidiaries as at March 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which indicates that the Company has incurred a net loss of \$35,711,754 for the year ended March 31, 2014 and has an accumulated deficit of \$69,886,256 since inception. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(signed) "BDO CANADA LLP"

Chartered Accountants
June 30, 2014

Evolving Gold Corp.
Expressed in United States Dollars
For the year-ended March 31, 2014

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Evolving Gold Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in United States Dollars**For the year-ended March 31, 2014**

	Note	March 31, 2014	March 31, 2013
Assets			
Current Assets			
Cash and cash equivalents	5	\$ 52,531	\$ 129,517
Available for sale securities	6	14,031	1,261,134
GST receivable		21,346	26,529
Other receivable		14,000	94,661
Prepaid expenses		23,942	105,362
		<u>125,850</u>	<u>1,617,203</u>
Non-Current Assets			
Property, plant and equipment	9	50,581	127,503
Exploration and evaluation assets	8	9,483,240	43,561,963
		<u>9,533,821</u>	<u>43,689,466</u>
Total Assets		\$ 9,659,671	\$ 45,306,669
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	16	\$ 1,484,039	\$ 1,291,010
		<u>1,484,039</u>	<u>1,291,010</u>
Other Liabilities			
Warrant liability	11	97,890	421,330
Asset retirement obligation	10	686,273	686,273
		<u>784,163</u>	<u>1,107,603</u>
Shareholders' Equity			
Share Capital	11	75,471,732	75,331,448
Reserves	11	1,805,993	8,875,576
Deficit		(69,886,256)	(41,298,968)
Total Equity		7,391,469	42,908,056
Total Liabilities and Shareholders' Equity		\$ 9,659,671	\$ 45,306,669
Events subsequent to the period end	19		

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

"R. Bruce Duncan"

Director

"William Majcher"

Director

The accompanying notes form an integral part of these consolidated financial statements

Evolving Gold Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Expressed in United States Dollars**For the year-ended March 31, 2014**

	Note	Year ended March 31,	
		2014	2013
Expenses			
Accounting and audit		\$ 49,149	\$ 105,190
Depreciation	9	57,911	85,465
Bank charges and interest		6,174	18,757
Consulting	16	4,886	94,392
Directors fees	16	-	98,960
Legal		11,827	448,468
Management fees	16	327,522	572,055
Office, rent and salaries		274,486	712,602
Promotion and advertising		-	60,802
Property Investigation costs		-	1,734
Share-based payments	12	54,883	897,398
Transfer agent and filing fees		74,197	103,040
Travel		2,446	205,528
		<u>863,481</u>	<u>3,404,391</u>
Other Items			
Change in fair value of warrant liability	11	(473,358)	(1,194,924)
Write-down of mineral properties	8	34,555,515	11,085,765
Write-down of available for sale securities	6	217,325	2,352,100
Loss on disposition of available for sale securities	6	550,458	-
Gain on disposal of Equipment		(8,991)	-
Foreign Exchange		43,003	131,492
Interest and other income		<u>(35,679)</u>	<u>(56,764)</u>
Comprehensive loss for the year		\$ (35,711,754)	\$ (15,722,060)
Comprehensive loss per basic and diluted share	18	(0.22)	(0.11)

The accompanying notes form an integral part of these consolidated financial statements

Evolving Gold Corp

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in United States Dollars

For the year-ended March 31, 2014

	Note	Share Capital				Total Shareholders' Equity
		Number of shares	Amount	Reserves	Deficit	
Balance at March 31, 2012		139,013,445	\$ 72,258,755	\$ 11,952,510	\$ (29,551,240)	\$ 54,660,025
Shares issued in relation to a private placement	11	12,000,000	3,587,313	-	-	3,587,313
Warrant liability valuation on Private placement	11	-	(1,523,394)	-	-	(1,523,394)
Shares issued in exchange for 1,176,470 shares of Pinetree Capital	11	5,555,555	1,003,100	-	-	1,003,100
Shares issued for property payments	11	20,000	5,674	-	-	5,674
Share-based payments	11	-	-	897,398	-	897,398
Warrants expired	11	-	-	(3,974,332)	3,974,332	-
Net loss for the period		-	-	-	(15,722,060)	(15,722,060)
Balance at March 31, 2013		156,589,000	\$ 75,331,448	\$ 8,875,576	\$ (41,298,968)	\$ 42,908,056
Shares issued in relation to a private placement	11	6,000,000	289,260	-	-	289,260
Warrant liability valuation on Private placement	11	-	(149,918)	-	-	(149,918)
Shares issued for property payments	11	20,000	942	-	-	942
Share-based payments	11	-	-	54,883	-	54,883
Adjustment to options reserve	11	-	-	(7,124,466)	7,124,466	-
Net loss for the period		-	-	-	(35,711,754)	(35,711,754)
Balance at March 31, 2014		162,609,000	\$ 75,471,732	\$ 1,805,993	\$ (69,886,256)	\$ 7,391,469

The accompanying notes form an integral part of these consolidated financial statements

Evolving Gold Corp

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in United States Dollars

For the year-ended March 31, 2014

	Year ended March 31,	
	2014	2013
Operating Activities		
Net loss for the period	\$ (35,711,754)	\$ (15,722,060)
Adjustments to reconcile net loss to cash used in operating activities:		
Share-based payments	54,883	897,398
Amortization	57,911	85,465
Change in fair value of warrant liability	(473,358)	(1,194,924)
Loss on disposition of available for sale securities	550,458	-
Write-down of available-for-sale securities	217,325	2,352,100
Gain on disposal of equipment	(8,991)	-
Interest accrued on letter of credit	-	(12,209)
Write-down of exploration and evaluation assets	34,555,515	11,085,765
Changes in assets and liabilities:		
Receivables	85,844	(25,385)
Prepaid expenses & other current assets	81,420	36,155
Accounts payable & accrued liabilities	193,029	457,084
Cash used in operating activities	(397,718)	(2,040,611)
Financing activities:		
Issuance of Common shares	139,342	2,063,919
Issuance of warrants	149,918	1,523,394
Cash provided by financing activities	289,260	3,587,313
Investment activities:		
Mineral property expenditures	(575,850)	(8,812,932)
Property payment	100,000	200,178
Proceeds from the sale of property and equipment	28,002	-
Acquisition of property and equipment	-	(86,018)
Refund of letter of credit	-	682,518
Funds received from sale of available for sale securities	479,320	1,190,706
Cash used in investment activities	31,472	(6,825,548)
Net change in cash and cash equivalents	(76,986)	(5,278,846)
Cash and cash equivalents, beginning balance	129,517	5,408,363
Cash and cash equivalents, ending balance	\$ 52,531	\$ 129,517
Supplemental cash flow information		
	2014	2013
During the years ended March 31, 2014 and 2013, the Company had non-cash transactions as follows:		
Shares issued for property payments	\$ 942	\$ 5,674
Cash used in operating activities includes:		
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

The accompanying notes form an integral part of these consolidated financial statements

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

1. CORPORATE INFORMATION

Evolving Gold Corp. (the “Company” or “Evolving”) was incorporated as 6109527 Canada Ltd. on June 19, 2003, under the Canada Business Corporation Act and is in the business of acquiring, exploring and evaluating mineral properties. On September 30, 2003, the Company changed its name to Evolving Gold Corp. The Company is in the exploration stage and has interests in mineral properties located in the United States of America. Effective December 7, 2010, the common shares of the Company were listed on the Toronto Stock Exchange (“TMX”) and trade under the symbol EVG.

The head office, principal address and records office of the Company are located at 1166 Alberni Street, Suite 605, Vancouver, BC, Canada, V6E 3Z3. The Company’s registered address is Suite 1500, 1055 West Georgia Street, Vancouver, BC V6E 4N7.

2. BASIS OF PREPARATION

a) Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements were authorized for issue by the Board of Directors on June 27, 2014.

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets and derivative liabilities at fair value through profit or loss.

The financial statements are presented in United States dollars, which is also the Company’s functional currency, unless otherwise indicated. The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The consolidated financial statements include the accounts of the Company and its controlled entities. Details of controlled entities are as follows:

	incorporation Jurisdiction	Percentage owned	
		March 31, 2014	March 31, 2013
Evolving Gold Corporation (“Evolving US”)	USA	100%	100%
5210 Nunavut Ltd.	Nunavut	100%	100%
Exemplar Gold Corp.	Canada	100%	100%
Rattlesnake Mining Corporation	Canada	100%	100%
Rattlesnake Mining Company (Wyoming)	USA	100%	100%

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

2. BASIS OF PREPARATION (CONTINUED)

c) Nature of Operations

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of the business for the foreseeable future. As at March 31, 2014, the Company has incurred a net loss of \$35,711,754 for the year ended March 31, 2014 and has an accumulated deficit of \$69,886,256 since inception. These conditions indicate the existence of material uncertainty which casts significant doubt about the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon obtaining, in the short term, the necessary financing to meet the Company's operating and mineral property commitments as they come due and to finance future exploration and development of potential business acquisitions, economically recoverable reserves, securing and maintaining title and beneficial interest in the properties and upon future profitable production. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements unless otherwise indicated.

a) Foreign Currency Transactions

Foreign currency accounts are translated into United States dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into United States dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into United States dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument

Non-monetary assets and liabilities that are measured at historical cost are translated into United States dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into United States dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

b) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, demand deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

d) Exploration and Evaluation Assets

Pre-exploration Costs

Pre-exploration costs are expensed in the year in which they are incurred.

Exploration and Evaluation Expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and amortization on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest as consideration for an agreement by the transferor to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

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

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties. As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Exploration and evaluation expenditures are classified as intangible assets.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property, Plant and Equipment

Recognition and Measurement

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability would be recognized within provisions. Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation

Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Office furniture and fixtures	Straight line over 3 Years
Computer equipment	Straight line over 3 Years
Exploration vehicles	Straight line over 5 Years
Leasehold improvements	Straight line over the term of the lease
Computer software	One year

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

f) Impairment of Non-Financial Assets

Non-financial assets, including exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss except to the extent they reverse gains previously recognized in accumulated other comprehensive loss/income.

g) Financial Instruments

Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial Instruments (continued)

Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-For-Sale Investments

Non-derivative financial assets that do not meet the definition of loans and receivables are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive loss/income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost. (Note 6)

On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

Impairment on Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are classified as either fair value through profit or loss or other financial liabilities, based on the purpose for which the liability was incurred, and are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument.

The warrant liability is carried at fair value through profit or loss and reflects the estimated fair value in US dollars of the derivative liability associated with the underlying share purchase warrants which are denominated in Canadian dollars.

Other financial liabilities comprise trade payables and accrued liabilities and are subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the year which are unpaid.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Provisions

Asset Retirement Obligation

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated future costs of legal and constructive obligations required to restore the exploration sites in the year in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related exploration properties. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the year in which they occur.

Other Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

j) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

k) Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year-ended March 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Earnings / Loss Per Share

Basic earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant year.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

m) Stock Based Payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

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

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income. Options or warrants granted 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 by use of a valuation model.

All equity-settled share-based payments are reflected in stock option reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in stock option reserves is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

n) Changes in Accounting Policies

New and revised standards adopted by the Company:

- IFRS 10 Consolidated Financial Instruments

IFRS 10 replaces the consolidation requirements in IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretations Committee ("SIC") Interpretation 12, Consolidation - Special Purpose Entities. IFRS 10 introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee, and was adopted commencing April 1, 2013. The adoption of IFRS 10 did not have an impact on these consolidated financial statements.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Changes in Accounting Policies (continued)

- **IFRS 11 Joint Arrangements**

In May 2011, the IASB issued guidance establishing principles for financial reporting by parties to a joint arrangement. IFRS 11 replaces IAS 31, Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method. The adoption of this standard, commencing April 1, 2013, did not have an impact on these consolidated financial statements.

- **IFRS 12 Disclosures of Interests in Other Entities**

IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The disclosure requirements are applicable to all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of this standard, commencing April 1, 2013, did not result in additional disclosures to what the Company has already been providing in regards to its interests in other entities.

- **IFRS 13 Fair Value Measurement**

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The adoption of this standard, commencing April 1, 2013, did not have an impact on these consolidated financial statements.

- **IAS 27 Separate Financial Statements**

IAS 27 was amended as a consequence of the issuance of IFRS 10, 11 and 12. IAS 27 sets the standards for investments in subsidiaries, jointly controlled entities, and associates when an entity elects, or is required, to present separate non-consolidated financial statements. The adoption of this new standard, commencing April 1, 2013, did not have an impact on these consolidated financial statements.

- **IAS 28 Investments in Associates and Joint Ventures**

IAS 28 was amended as a consequence of the issuance of IFRS 10, 11 and 12. IAS 28 provides additional guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The adoption of this new standard, commencing April 1, 2013, did not have an impact on these consolidated financial statements.

- **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. The adoption of IFRIC 20, commencing April 1, 2013, did not have an impact on these consolidated financial statements.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year-ended March 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Changes in Accounting Policies (continued)

Changes to accounting standards not yet effective

- **IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 introduces new requirements for the classification and measurement of financial instruments and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

- **IAS 36 – Impairment of Assets**

IFRS 36 was amended by recoverable amount disclosures for non-financial assets. The amendments apply retrospectively for annual periods beginning on or after January 1, 2014. The change in accounting standard will not have a significant impact on the Company's consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

i) Rehabilitation Provisions

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

ii) Exploration and Evaluation Expenditure

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

iii) Title to Mineral Property Interests

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

iv) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities. In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

v) Share-based Payment Transactions and Derivative Liabilities related to Equities

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. Similar methodology is used to determine the fair value of derivative liabilities related to warrants denominated in Canadian dollars.

vi) Impairment of mineral interests, property, plant and equipment

Impairment testing is done at the cash generating unit level and judgment is involved in assessing whether there is any indication that an asset or cash generating unit may be impaired. This assessment is made based on an analysis of, amongst other factors, changes in the market or business environment, events that have transpired that have impacted the asset or cash generating unit, and information from internal reporting.

vii) Impairment of AFS Securities

The determination of whether an investment is impaired requires significant judgment. In making this judgment, the company evaluates, amongst other things, the duration and extent to which the fair value of the investment is less than its original cost at each reporting period.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

5. CASH AND CASH EQUIVALENTS

Cash at banks and on hand earn interest at floating rates based on daily bank deposit rates. As at March 31, 2014, cash and cash equivalents consisted of \$52,531 (2013: \$129,517) held in commercial deposit accounts with a Canadian Chartered Bank.

6. AVAILABLE FOR SALE SECURITIES

Available for sale securities consist of investments in the common shares of Prosperity Goldfields Corp., NV Gold Corp and Pinetree Capital Corp. and therefore have no fixed maturity date or coupon rate. The fair value of the listed available-for-sale securities has been determined directly by reference to published price quotations in an active market:

	Fair Value (US\$)	
	March 31, 2014	March 31, 2013
Prosperity Goldfields Corp		
March 2014- 408,504 shares; March 2013 – 4,008,704 shares	\$14,031	\$535,153
NV Gold Corp		
March 2014 - nil shares; March 2013- 829,500 shares	-	32,593
Pinetree Capital Corp		
March 2014- nil shares; March 2013- 1,176,470 shares	-	693,388
	<u>\$14,031</u>	<u>\$1,261,134</u>

During the year ended March 31, 2014, the Company recorded a loss on sale of available for sale securities of \$767,783 (2013 - \$nil).

During the year ended March 31, 2014, the Company recorded an write-down of \$217,325 (2013: \$2,352,100) attributable to the change in fair value of available for sale securities.

7. PRIOR PERIOD RECLASSIFICATION

On February 7, 2013, the Company announced, subject to shareholder and regulatory approval, a Plan of Arrangement (the "Arrangement") whereby the Company's wholly owned subsidiary, Evolving US, would transfer its Rattlesnake mineral property to a newly incorporated US company named Rattlesnake Mining (Wyoming) Company ("Rattlesnake Wyoming") As a result, the property was accounted for as discontinued operations and classified in the consolidated financial statements as an Asset Held for Sale. During the year ended March 31, 2014, the Company determined that it would be unable to proceed with the Arrangement.

As a result, due to the Rattlesnake mineral property being held in a wholly owned subsidiary of the Company, the financial statements of the prior year have been amended in order to include the Rattlesnake property previously classified as "Assets Held for Sale" on the Consolidated Statement of Financial Position in the amount of \$12,056,318 as at March 31, 2013 as a component of the Exploration and Evaluation assets on the Consolidated Statement of Financial Position as at March 31, 2013. (Note 8)

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

For the year-ended March 31, 2014

8. EXPLORATION AND EVALUATION ASSETS

	Carlin	Humboldt	Jake Creek	Malone	Rattlesnake	March 31, 2014
Acquisition costs						
Opening Balance	2,553,789	2,533,445	-	-	2,978,952	\$ 8,066,186
Additions	43,804	26,853	47,123	-	-	117,780
Write down of mineral properties	-	(2,560,298)	-	-	-	(2,560,298)
	2,597,593	-	47,123	-	2,978,952	5,623,668
Deferred exploration costs						
Opening balance	18,634,195	3,746,829	2,393,125	863,716	8,505,366	34,143,231
Assays and reports	7,612	-	-	-	-	7,612
Drilling	5,020	-	-	-	-	5,020
Field expenses	86,433	-	-	-	321,881	408,314
Geological consulting	198,116	-	-	-	-	198,116
Geophysical and geological studies	695	-	-	-	-	695
Staking, recording and land maintenance	51,550	-	-	-	-	51,550
	18,983,621	3,746,829	2,393,125	863,716	8,827,247	34,814,538
Reclamation bonds	167,978	-	-	-	286,000	453,978
Asset retirement obligation	320,273	50,000	30,000	-	286,000	686,273
Write-down of mineral properties	(16,552,099)	(3,796,829)	(1,235,124)	(863,716)	(9,547,449)	(31,995,217)
Property payment	-	-	-	-	(100,000)	(100,000)
	(16,063,848)	(3,746,829)	(1,205,124)	(863,716)	(9,075,449)	(30,954,966)
	\$ 5,517,366	\$ -	\$ 1,235,124	\$ -	2,730,750	\$ 9,483,240

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars**For the year-ended March 31, 2014****8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

	Carlin	Humboldt	Jake Creek	Malone	Rattlesnake	March 31, 2013
Acquisition costs						
Opening Balance	\$ 1,787,741	\$ 2,157,915	\$ -	\$ -	\$ 3,179,130	7,124,786
Additions	766,048	375,530	-	-	-	1,141,578
	2,553,789	2,533,445	-	-	3,179,130	8,266,364
Deferred exploration costs						
Opening balance	12,461,577	3,016,373	2,087,931	848,318	19,215,161	37,629,360
Assays and reports	119,529	-	-	-	-	119,529
Drilling	5,266,886	573,455	35,912	-	(6,771)	5,869,482
Field expenses	195,938	10,494	12,471	1,017	132,226	352,146
Geological consulting	467,527	95,371	121,035	2,723	124,304	810,960
Geophysical and geological studies	51,186	16,040	30,656	-	51,200	149,082
Staking and recording	71,552	35,096	105,120	11,658	99,491	322,917
	18,634,195	3,746,829	2,393,125	863,716	19,615,611	45,253,476
Reclamation bonds	380,273	-	-	-	261,520	641,793
Asset retirement obligation	320,273	50,000	30,000	-	286,000	686,273
Write-down of mineral properties	-	-	-	-	(11,085,765)	(11,085,765)
Property payment	-	-	-	-	(200,178)	(200,178)
	700,546	50,000	30,000	-	(10,738,423)	(9,957,877)
	\$ 21,888,530	\$ 6,330,274	\$ 2,423,125	\$ 863,716	\$ 12,056,318	\$ 43,561,963

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Newmont Mineral Properties

In September 2007, the Company signed a Letter of Intent to enter into an agreement with Newmont USA Limited, Newmont Capital Limited and Elko Land and Livestock Company (collectively "Newmont") concerning an exploration partnership on the Carlin Property and sundry other mineral properties which have been released by the Company over the intervening years.

In addition, the Company acquired the Humboldt Properties adjacent to the above mentioned Carlin properties as well as additional properties which fell within the Carlin Agreement boundary.

A Mineral Lease, Sublease and Agreement which was signed effective November 28, 2007 continues to govern the Company's interest in the Carlin mineral property. Under the terms of this Agreement, Newmont would lease or sublease to the Company its interest in certain lands, unpatented mining claims and fee interests in these areas, subject to a back-in right in exchange for the Company:

- Assume all of Newmont's lease obligations insofar as they pertain to these project areas.
- Incur US\$3,500,000 in aggregate exploration expenditures (70% of exploration expenditures to be incurred for direct drilling) within the project area over five years. (Completed).
- Reimburse Newmont for all payments and filings necessary to keep the properties in good standing.
- Provide semi-annual reports to Newmont for each project area's work program and costs incurred
- After six years, in the event that US\$750,000 was not incurred on exploration expenditures during the preceding lease year on any project area, Evolving would pay annual rental on each project area calculated at \$10 per acre, escalating by 5% each year, for each project area so defined.
- Pay a 3% to 5% sliding scale net smelter return royalty on production from the property less any underlying royalties with a minimum of 2%

Newmont can elect to terminate the agreement and enter into one or more joint venture agreements with the Company covering all or a portion of each project area. Newmont may earn a 51% interest in each joint venture property by expending on the property 200% of the exploration expenditures made by the Company from the date of the agreement to the date Newmont elects to exercise its joint venture option and may elect to earn an additional 19% interest in the joint venture property by expending on the property an additional 150% of the Company's expenditures on the joint venture property. If the Company decides to commence mineral production of the project area and Newmont elects not to exercise the joint venture option or elects not to complete its earn-in expenditures, Newmont would agree to sell its interest in the project area property to the Company.

The Company has the right to provide sixty days written notice at any time to surrender the agreement as to all or any part of the property.

If Evolving decides to commence mineral production of any project area and Newmont elects not to exercise the joint venture option or elects not to complete its earn-in expenditures Newmont would agree to sell its interest in the project area property to Evolving.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Carlin Mineral Property

Carlin comprises approximately 10,880 acres, made up of a combination of Federal lode claims that were staked or leased by the Company, fee surface and mineral rights acquired or leased by the Company, and earn-in rights to both fee surface and mineral rights, as well as lode claims on Federal lands, held by Newmont.

On January 11, 2010, the Company signed a ten-year surface lease agreement for the lands described as the Carlin property in exchange for cash of \$16,000 (paid) and \$10,000 payable annually on January 11, 2011 and each year thereafter. Prior to commencement of commercial production the Company is obligated to purchase the area for \$2,000 per applicable acre. The agreement can be terminated by Evolving after thirty days written notice is provided and can be extended if certain conditions are met including providing compensation for surface area disturbance.

On March 29, 2010, the Company signed a purchase and royalty reservation agreement for a 50% undivided fee interest in additional lands on the Carlin property in exchange for cash of \$10,000, cash of \$190,000 paid on completion and the issue of non-interest bearing promissory notes for \$1,200,000 payable in annual \$300,000 instalments commencing May 27, 2011. During the year ended March 31, 2012, the Company paid first instalment of \$300,000 and in June 2012, the Company paid the second promissory note instalment of \$300,000.

On April 13, 2010 the Company signed an additional purchase agreement for a 100% undivided fee interest in additional adjacent lands in exchange for cash paid on signing of \$10,000, cash of \$290,000 paid on completion and the issue of promissory notes for \$2,200,000 payable in annual \$550,000 instalments, commencing August 10, 2011. During the 2012 fiscal year, the Company re-negotiated the terms of the Carlin Property promissory note. The note was revised to the following:

- \$2,200,000 bearing an interest rate of 4% until February 10, 2016, at which time the interest rate shall be the Wall Street Journal bank prime lending rate plus 1%. Payments of \$360,000 are due on February 10, 2012 (paid) and each year thereafter until February 10, 2018 at which time the balance remaining shall become due and payable.

In addition with respect to both the March 29, 2010 and the April 13, 2010 aforementioned agreements, the Company will be committed to pay up to 1.0% NSR royalty on production.

During the year ended March 31, 2014, the Company notified the vendors of the additional Carlin properties that it would be unable to comply with the payment obligations on their due dates and thus was released from any further obligation under this note.

At March 31, 2014, the Company assessed the carrying amount of its Carlin property for indicators of impairment such as changes in (1) the period for which the entity cannot explore in the specific area or whether these rights have expired during the period or will expire in the near future, and is not expected to be renewed and (2) whether substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected cash flows) of the relevant assets. In this particular case the recoverable amount is considered to be \$5,517,366.

As a result, the Company recorded an impairment charge of \$16,552,099 in the Comprehensive Statement of Loss for the year ended March 31, 2014 in respect of the Carlin property.

Humboldt Property

On March 29, 2010, the Company signed a purchase and royalty reservation agreement for a 50% undivided fee interest in additional lands on the Humboldt property in exchange for cash paid of \$15,000, cash of \$285,000 paid on completion, and the issue of non-interest bearing promissory notes for \$2,800,000 payable in annual \$700,000 instalments, commencing May 27, 2011. During the year ended March 31, 2011, the Company paid the first promissory note instalment of \$700,000 and in June 2012, the Company paid the second instalment of \$700,000.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Humboldt Property (continued)

At April 13, 2010 the Company also signed two other purchase agreements for a 100% undivided fee interest in additional adjacent lands in exchange for cash of \$20,000 paid, cash of \$480,000 paid on closing and the issue of non-interest bearing promissory notes for \$1,800,000 and \$3,200,000 payable in annual \$450,000 and \$800,000 instalments respectively, commencing August 10, 2011. In addition with respect to both the March 29, 2010 and the April 13, 2010 aforementioned Humboldt agreements, the Company will be committed to pay up to 1.0% NSR on production.

During the 2012 fiscal year, the Company re-negotiated the terms of the Humboldt Property promissory notes. The notes were revised to the following:

- 1) \$3,200,000 bearing an interest rate of 4% until February 10, 2016, at which time the interest rate shall be the Wall Street Journal bank prime lending rate plus 1%. Payments of \$523,000 are due on February 10, 2012 (paid) and each year thereafter until February 10, 2018 at which time the balance remaining shall become due and payable. During the year ended March 31, 2013, the Company negotiated an extension of the \$523,000 payment originally due February 10, 2013 to a new due date of May 27, 2013.

- 2) \$1,800,000 bearing an interest rate of 4% until February 10, 2016, at which time the interest rate shall be the Wall Street Journal bank prime lending rate plus 1%. Payments of \$295,000 are due on February 10, 2012 (paid) and each year thereafter until February 10, 2018 at which time the balance remaining shall become due and payable. During the year ended March 31, 2013, the Company negotiated an extension of the \$295,000 payment originally due February 10, 2013 to a new due date of May 27, 2013.

During the ended March 31, 2014, the Company notified the vendors of the additional Humboldt properties that it would be unable to comply with the payment obligations on their due dates and was thus released from any further obligations under the promissory notes.

During the year ended March 31, 2014, the Company abandoned the claims in the Humboldt property and recorded an impairment charge of \$6,357,127 in respect of the mineral expenditures deferred on this property.

Carlin and Humboldt Properties

On October 26, 2009 the Company signed a mineral lease and property option agreement comprising sixty-two unpatented mining claims located in Elko County, Nevada, part of the Humboldt property. In addition on February 28, 2010 the Company signed a mineral lease and royalty buy down agreement comprising eight unpatented mining claims located adjacent to those Humboldt claims acquired in the aforementioned October 26, 2009 agreement.

Both agreements have a primary term of fifteen years and so long thereafter as exploration, development or mining is being conducted on the property but can be terminated at any time in whole or in part after the Company provides thirty days written notice. Pursuant to the terms of these two agreements the Company is required to pay:

\$ 25,000 (paid)

Advance royalty payments:

- \$ 10,000 (paid)
- \$ 12,500 (paid)
- \$ 15,000 on October 26, 2011 (paid)
- \$ 17,500 on October 26, 2012 (paid)
- \$ 20,000 on October 26, 2013 (forgiven)
- \$ 25,000 on October 26, 2014 and
- \$25,000 consumer price index adjusted, to be paid annually on October 26, 2015 and each year thereafter for the duration of the lease

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Carlin and Humboldt Properties (continued)

Advance royalty payments:

- \$ 10,000 on February 28, 2011 to 2015 (paid \$30,000)
- \$ 15,000 on February 28, 2016 to 2020
- \$ 20,000 on February 28, 2021 and
- \$ 20,000 consumer price index adjusted, to be paid annually on February 28, 2021 and each year thereafter for the duration of the lease

Shares to be issued:

- 50,000 shares to be issued (or cash equivalent) by October 26, 2014
- 50,000 shares to be issued (or cash equivalent) by February 28, 2015
- 200,000 shares to be issued (or cash equivalent), at commencement of production.

Pay claim maintenance fees and filings to maintain the unpatented claims.

The agreements are subject to a royalty of 2.775% to 3% of net smelter returns which the Company can, with respect to the 8 unpatented claims, reduce to 2% with the payment of \$1,000,000 for each 0.5% reduction.

Pursuant to the terms of the October 26, 2009 Agreement, the Company has the right to acquire ownership of the 62 unpatented claims (and royalty) in exchange for a cash payment of \$4,000,000 subject to recoupment of any royalty payments made by the Company.

On April 13, 2010, the Company signed a ten year surface lease agreement for the lands in exchange for cash of \$42,503 on execution and on each anniversary thereafter if acreage is not decreased. The Company will also pay a onetime payment of \$1,500 for each drill site and \$100 per acre per year for other surface disturbance if ranching and grazing is not possible. One half of these lands have been allocated to each of the Carlin and Humboldt properties. During the ended March 31, 2014, the Company notified the Carlin property vendors that it would be unable to comply with the payment obligations on their due dates. The Company approached the vendors to discuss the renegotiation of the terms of the agreements, but ultimately decided not to hold the additional properties.

On April 13, 2010 the Company signed two mineral lease agreements encompassing a total of 4,635.76 acres of additional lands in the Elko and Eureka counties in Nevada in exchange for cash paid for advance mineral royalties of \$55,725. One half of these lands have been allocated to each of the Carlin and Humboldt properties.

Future royalties will be payable annually based on the amount of acreage utilized but will be at least \$20,000. The term of each lease is ten years which can be extended if certain conditions are achieved.

Pursuant to the terms of both leases the Company can decrease the leased acreage or can otherwise terminate the lease after thirty days written notice is provided and has also been granted the right of first refusal to purchase either property. The agreements are subject to a non-participating production royalty of 5% of net smelter returns.

Malone Property

In 2006, the Company entered into a quitclaim deed and royalty agreement with Newmont North America Exploration Ltd. whereby the Company was granted all rights, title, estate and interest in unpatented mineral claims in Lordsburg, New Mexico in exchange for \$20,000.

During the year ended March 31, 2014, the Company abandoned its rights under this agreement and recorded an impairment charge of \$863,176.

Evolving Gold Corp.

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8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Jake Creek Property

In December 2007, the Company increased its exploration activities in north-central Nevada and acquired additional claims near the Sheep Creeks area (the "Jake Creek property").

At March 31, 2014, the Company assessed the carrying amount of its Jake Creek property for indicators of impairment and determined that the carrying amount of the property exceeded its recoverable amount. As a result, the Company recorded an impairment charge of \$1,235,124 in the Statement of Comprehensive Loss for the year ended March 31, 2014 in respect of the Jake Creek property.

Rattlesnake Property

During the year ended March 31, 2014, the Company announced that it had entered into a definitive agreement ("NVX Agreement") with NV Gold Corporation ("NVX") to option its 100% interest in the Rattlesnake property. Under the Agreement, NVX may acquire Rattlesnake Hills by paying and issuing the following:

1. At signing \$100,000 (Received);
2. At signing, but payable at regulatory approval \$300,000 (Received subsequent to March 31, 2014);
3. At regulatory approval \$100,000 and NVX issuing 1,000,000 common share purchase warrants, each such
4. on or before August 1st, 2014 \$200,000;
5. on or before September 15th, 2014, 1,000,000 common share purchase warrants, each such warrant exercisable to acquire one common share of NVX at CDN\$0.10 per share until September 15th, 2016;
6. on or before November 1st, 2014, \$800,000;
7. on or before the first anniversary of TSXV acceptance of this option agreement, \$1,000,000 and 1,000,000 common
8. On or before the second anniversary of the date of this option agreement, \$1,000,000 and 1,000,000 common shares of NVX;

Upon NVX completing the total cash payments of \$3,500,000, issuing 3,000,000 common share purchase warrants and issuing 1,000,000 common shares, NVX shall have exercised its option and 100% interest in the property, subject to royalties, shall be transferred to NVX at that time.

As a result of the terms included in the NVX agreement, the Company recorded an impairment charge of \$9,547,449 in its Statement of Comprehensive Loss for the year ended March 31, 2014 (March 31, 2013: \$11,110,245) in order to reduce the value of the Rattlesnake property to its recoverable amount.

Evolving Gold Corp.

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9. PROPERTY PLANT AND EQUIPMENT

	Office furniture and equipment	Computer equipment and software	Leasehold Improvements	Exploration Vehicles	Total
Cost:					
March 31, 2013	136,744	137,953	18,910	105,254	398,861
Disposals	(3,250)	(22,336)	-	(105,254)	(130,840)
March 31, 2014	133,494	115,617	18,910	-	268,021
Depreciation					
March 31, 2013	(119,055)	(87,586)	(5,682)	(59,035)	(271,358)
Additions	(4,974)	(23,509)	(2,220)	(27,208)	(57,911)
Disposal	3,250	22,336	-	86,243	111,829
March 31, 2014	(120,779)	(88,759)	(7,902)	-	(217,440)
Net Book Value					
March 31, 2013	\$ 17,689	\$ 50,367	\$ 13,228	\$ 46,219	\$ 127,503
March 31, 2014	\$ 12,715	\$ 26,858	\$ 11,008	\$ -	\$ 50,581

	Office furniture and equipment	Computer equipment and software	Leasehold Improvements	Exploration Vehicles	Total
Cost:					
March 31, 2012	136,782	224,559	68,502	172,753	602,596
Additions	11,872	65,424	8,722	-	86,018
Disposals	(11,910)	(152,030)	(58,314)	(67,499)	(289,753)
March 31, 2013	136,744	137,953	18,910	105,254	398,861
Depreciation					
March 31, 2012	(109,651)	(215,290)	(49,607)	(101,098)	(475,646)
Additions	(21,314)	(24,326)	(14,389)	(25,436)	(85,465)
Disposal	11,910	152,030	58,314	67,499	289,753
March 31, 2013	(119,055)	(87,586)	(5,682)	(59,035)	(271,358)
Net Book Value					
March 31, 2012	\$ 27,131	\$ 9,269	\$ 18,895	\$ 71,655	\$ 126,950
March 31, 2013	\$ 17,689	\$ 50,367	\$ 13,228	\$ 46,219	\$ 127,503

Evolving Gold Corp.

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10. ASSET RETIREMENT OBLIGATIONS

The Company estimated the present value of its Rattlesnake Hills Mineral Property future reclamation obligation as legally required by the United States Federal and State Government permitting requirements. The increase in the asset retirement obligation since March 31, 2009 results from an increase in exploration activity on various properties. The Company fulfils its site restoration obligations as required when a drill site is abandoned, and accordingly no discounted present value was calculated due to the expected short term nature of the obligation. Management will continue to assess asset retirement obligations as future exploration activity is undertaken.

During the year ended March 31, 2013, the Company requested a re-evaluation of its asset retirement liability on the Rattlesnake property. As a result of this re-evaluation, the Company increased its cash bond on Rattlesnake by \$136,000 to \$286,000, the amount calculated by the State of Wyoming. The letter of credit previously required to secure the obligation was cancelled November 5, 2012 resulting in a net increase of \$11,000 in the asset retirement obligations of the Company.

Due to the state of the capital markets, during the year ended March 31, 2014 the Company conducted limited work on its properties, mostly with respect to the care and maintenance of properties. Accordingly, there were no changes to asset retirement obligations.

The asset retirement obligations are as follows:

	<u>March 31, 2014</u>		<u>March 31, 2013</u>
Opening balance	\$ 686,273	\$	485,000
Additions	-		201,273
	<u>\$ 686,273</u>	<u>\$</u>	<u>686,273</u>

11. SHARE CAPITAL AND RESERVES

a) Common Shares

The Company is authorized to issue an unlimited number of common shares, issuable in series. The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The changes to share capital during the year ended March 31, 2014, are summarized in the Consolidated Statement of Shareholders' Equity included in these financial statements.

During the year ended March 31, 2014, the Company completed the following transactions:

- 6,000,000 units were issued pursuant to a private placement offering for net proceeds of \$289,260 (Canadian \$300,000). Each Unit consisted of one common share and one common share purchase warrant, for a total of 6,000,000 warrants for which proceeds of \$149,918 were allocated at their fair value determined by the Black Scholes pricing model using the following inputs: Exercise Price - CDN\$0.08; Share price - \$CDN 0.05; expected life - 3.0 years; volatility - 90%; dividend yield - 0.00%. Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of CDN\$0.08 until August 23, 2016.

Evolving Gold Corp.

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● **11. SHARE CAPITAL AND RESERVES (CONTINUED)**

a) **Common Shares (continued)**

- 20,000 shares were issued with respect to the acquisition of the Kiyuk property for Prosperity Goldfields Corp., pursuant to the property agreement previously signed by the Company prior to the sale of Prosperity. The value attributed to these shares was \$942 based on the quoted market price of the Company's shares on the date of their issuance. The Company received 25,313 additional Prosperity shares as repayment for this issuance (prior to the consolidation of Prosperity common shares).

During the year ended March 31, 2013, the Company completed the following transactions:

- 12,000,000 units were issued pursuant to a private placement offering for net proceeds of \$3,587,313. Each Unit consisted of one common share and one common share purchase warrant, for a total of 12,000,000 warrants for which proceeds of \$1,523,394 were allocated at their fair value determined by the Black Scholes pricing model using the following inputs: Exercise Price - CDN\$0.40; Share price - \$CDN 0.30; expected life – 3.0 years; volatility – 85%; dividend yield – 0.00% . Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of CDN\$0.40 until August 13, 2015. In connection with the Offering, the Company also issued finder's compensation warrants totaling 49,000 warrants having a fair value of \$28,928 and recorded as a share issue cost. These compensation warrants are exercisable into one common share of the Company at a price of CDN\$0.30 until August 13, 2014. All securities issued in the Offering are subject to a four-month hold period ending December 14, 2012 in accordance with applicable Canadian securities laws.
- 5,555,555 common shares were issued in consideration for the issuance of 1,176,470 common shares of Pinetree Capital at a price of \$0.85 CAD cents per share based on the quoted market price of Pinetree Capital on the date of the transaction for a total of \$1,003,100.
- 20,000 shares were issued with respect to the acquisition of the Kiyuk property for Prosperity Goldfields Corp., pursuant to the property agreement previously signed by the Company prior to the sale of Prosperity. The value attributed to these shares was \$5,674 based on the quoted market price of the Company's shares on the date of their issuance. The Company received 25,250 additional Prosperity shares as repayment for this issuance.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars**For the year-ended March 31, 2014****11. SHARE CAPITAL AND RESERVES (CONTINUED)****b) Share Purchase Warrants**

The following is a summary of changes in warrants for the years ended March 31, 2014 and 2013:

	March 31, 2014		March 31, 2013	
	Number of warrants	Weighted average exercise price (CDN \$)	Number of warrants	Weighted average exercise price (CDN \$)
Warrants outstanding, beginning of period	17,145,000	\$ 0.51	5,145,000	\$ 0.75
Warrants issued	6,000,000	0.08	12,000,000	0.40
Warrants exercised	-	-	-	-
Warrants expired	(5,145,000)	0.04	-	-
Warrants outstanding, end of period	18,000,000	\$ 0.51	17,145,000	\$ 0.51

During the year ended March 31, 2014, in addition to the warrants above, the Company issued nil (2013 – 49,000) agent warrants exercisable into one common share of the Company at a price of CDN \$nil (2013 - \$0.30).

On January 21, 2013 the Company announced that it has received approval from Toronto Stock Exchange to extend the term of 5,145,000 warrants that were set to expire on February 23, 2013 to February 23, 2014 and to reduce the exercise price of the Warrants from \$0.75 per share to \$0.40 per share. These Warrants were originally issued on August 23, 2011 as part of a private placement, and expired unexercised during the year ended March 31, 2014.

As at March 31, 2014, the Company had total outstanding warrants, including Agent's warrants, as follows:

	Number of warrants	Exercise price	Expiry
Share purchase warrants	12,000,000	CDN\$0.40	August 13, 2015
	6,000,000	CDN\$0.08	August 23, 2016
Share purchase warrants, excluding agents warrants	18,000,000		
	49,000	CDN\$0.30	August 13, 2014
	18,049,000		

The Company re-measures the fair value of share purchase warrants granted to unit holders denominated in currencies other than that of the functional currency of the entity every reporting period using the Black-Scholes option pricing model.

As at March 31, 2014, the fair value of these warrants was \$97,890 (2013: \$421,330). During the year ended March 31, 2014, the Company granted 6,000,000 (2013: 12,000,000) share purchase warrants having a fair value of \$149,918 (2013: \$1,523,394) in connection with a private placement. The fair value of these warrants were measured using the Black-Scholes option pricing model using the following assumptions: stock price: \$CDN0.02, exercise price: \$CDN 0.08, volatility: 118%, risk-free discount rate: 1.07%, dividend rate: 0.0% (2013: \$CDN0.28, exercise price: \$CDN 0.40 - \$CDN 0.75, volatility: 90-99%, risk-free discount rate: 4.20%, dividend rate: 0.0%).

As a result, for the year ended March 31, 2014, the Company has recorded the change in fair value of its warrant liabilities in the statement of comprehensive loss totaling \$473,358 (2013:\$1,194,924).

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars**For the year-ended March 31, 2014****11. SHARE CAPITAL AND RESERVES (CONTINUED)**

The warrant liabilities are summarized as follows:

	March 31, 2014	March 31, 2013
Balance, beginning of the year	\$421,330	\$92,860
Additions	149,918	1,523,394
Change in fair value	(473,358)	(1,194,924)
Balance, end of the year	\$97,890	\$421,330

c) **Nature and Purpose of Reserves****Reserves**• **Stock option reserve**

The stock option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to deficit.

• **Warrant reserves**

The warrant reserve records items recognized as the value of warrants issued with respect to financings and not classified as liabilities until such time as the warrants are exercised, at which time the corresponding amount will be transferred to share capital. The value of the warrants which eventually expire unexercised is reallocated to deficit upon their expiry.

• **Deficit**

Deficit is used to record the Company's change in deficit from earnings and losses from period to period and to record the value of expired options and warrants that were originally accounted for as equity instruments.

• **Accumulated Other Comprehensive Income (Loss)**

Accumulated Other Comprehensive Income (Loss) is used to record the unrecognized changes in fair value of the Company's holdings of available for sale securities

Reserves balances in the consolidated financial statements are comprised as follows:

Warrants and Stock Options

Balance, March 31, 2012	\$	11,952,510
Share based payments		897,398
Transfer of reserves related to expiry of warrants		(3,974,332)
Balance, March 31, 2013	\$	8,875,576
Share-based payments		54,883
Transfer of reserves related to expiry of unexercised options		(7,124,466)
Balance, March 31, 2014	\$	1,805,993

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. STOCK BASED PAYMENTS

The Company established a share purchase option plan (the "Plan") in September 2004. In September, 2007 shareholder approval was obtained to adopt a "rolling" stock option plan. The Board of Directors administers the Plan, pursuant to which the Board of Directors may grant from time to time incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants or advisors. All options granted under the Plan shall expire not later than the tenth anniversary of the date the options were granted. The exercise price of an option is determined by the Board of Directors, but shall not be less than the market price of the common shares of the Company on the TSX on the last business day before the date on which the options are granted, less any discount permitted by the rules of the exchange. Vesting and terms are at the discretion of the Board of Directors. The vesting of options range from vested immediately, a vesting period of three months to a two year period from the date of the grant, at 25% and 20% respectively. Options granted for Investor relations vest in accordance with TSX regulation. The changes in options during the years ended March 31, 2013 and 2014 are as follows:

Details of options outstanding as at March 31, 2014 are as follows:

	Number of options	March 31, 2014 Weighted average exercise price (CDN \$)	Number of options	March 31, 2013 Weighted average exercise price (CDN \$)
Options outstanding, beginning of period	10,349,000	\$ 0.52	9,524,000	\$ 0.84
Options granted	2,900,000	\$ 0.05	3,175,000	\$ 0.32
Options exercised	-	-	-	-
Options cancelled	-	-	(280,000)	\$ 0.90
Options expired	(4,258,500)	\$ 0.48	(2,070,000)	\$ 0.83
Options outstanding, end of period	8,990,500	\$ 0.39	10,349,000	\$ 0.52
Options exercisable, end of period	7,190,500	\$ 0.47	8,232,333	\$ 0.57

Expiry Date	Exercise Price (CDN\$)	Options Outstanding
November 30, 2014	\$1.25	255,000
May 21, 2015	\$0.92	350,000
December 2, 2015	\$1.14	105,000
January 24, 2016	\$0.97	500,000
February 2, 2016	\$0.94	600,000
February 27, 2017	\$0.37	1,345,000
November 14, 2018	\$0.17	85,500
January 15, 2019	\$0.35	100,000
April 15, 2019	\$0.35	50,000
May 26, 2019	\$0.42	350,000
July 12, 2017	\$0.32	2,550,000
October 25, 2018	\$0.05	2,700,000
		8,990,500

Evolving Gold Corp.

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12. STOCK BASED PAYMENTS (CONTINUED)

Fair Value of Options Issued During the Period

2,900,000 options granted during the year ended March 31, 2014 (2013: 3,175,000 options granted). The weighted average fair value at grant date of options granted during the year ended March 31, 2014 was \$0.04 (2013: \$0.25).

Options Issued to Employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Options Issued to Non-Employees

Options issued to non-employees, are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

The model inputs for options granted during the years ended March 31, 2014 and March 31, 2013 included:

	March 31, 2014	March 31, 2013
Share price on grant date	CDN \$0.04	CDN \$0.32
Exercise price	CDN \$0.05	CDN \$0.32
Risk-free interest rate	1.71%	4.20%
Expected life (yrs.)	5	5
Volatility	96.97%	103.8%
Dividend rate	0%	0%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognized during the year ended March 31, 2014 as part of employee benefit expense were \$54,883 (2013 - \$897,398).

Amounts Capitalized Arising from Share-based Payment transactions

No amounts were capitalized during the year ended March 31, 2014 and March 31, 2013.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. INCOME TAXES

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

	March 31, 2014	March 31, 2013
Loss before income taxes	\$ (35,711,754)	\$ (15,722,060)
Tax recovery based on the statutory rate of 26% (2013: 25%)	(9,285,000)	(3,931,000)
Non-deductible expenses	(100,000)	-
Foreign income taxed at other than Canadian statutory rate	(3,105,000)	(1,135,000)
Impact of under-provision in previous year	320,000	(418,000)
Non taxable portion of capital gains	103,000	-
Other	(384,000)	293,000
Changes in unrecognized deferred tax assets	12,451,000	5,191,000
Income tax expense (recovery)	\$ -	\$ -

Effective April 1, 2014, the Canadian Federal corporate tax rate is 15% and the BC provincial tax rate is increased to 11%. The US tax rate remains unchanged at 35%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars**For the year-ended March 31, 2014****13. INCOME TAXES (CONTINUED)****Deferred Income Tax Assets and Liabilities**

Significant components of the Company's deferred income tax assets and liabilities, after applying enacted corporate tax rates, are as follows:

	March 31, 2014	March 31, 2013
Share Issue costs	\$ 25,000	\$ 71,000
Accounts receivable	1,292,000	-
Marketable securities	141,000	58,000
Equipment	63,000	87,000
Mineral properties and related deferred exploration	2,288,000	684,000
Asset retirement obligation	100,000	240,000
Non – capital losses carried forward	19,654,000	12,478,000
Capital losses	102,000	-
	<u>23,665,000</u>	<u>13,618,000</u>
Unrecognized deferred tax asset	(23,665,000)	(11,214,000)
Deferred tax asset	<u>-</u>	2,404,000
Mineral properties and related deferred exploration	-	(2,404,000)
Offset against deferred tax assets		2,404,000
Deferred tax liability	<u>\$ -</u>	<u>\$ -</u>

The Company has only recognized deferred income tax assets to the extent to which it is probable that sufficient taxable income will be realized, or taxable temporary differences will reverse, during the carry-forward periods to utilize the deferred tax assets.

As at March 31, 2014, the Company had accumulated non-capital losses totaling approximately \$13,595,000 in Canada expiring in various amounts from 2015 to 2034, and \$46,053,000 in the US expiring in various amounts from 2028 to 2034 that may be applied against future year's taxable income in Canada and US.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

- **Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

- **Foreign Currency Risk**

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company has significant exposure to foreign exchange rate fluctuation. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in US dollars. The Company has not entered into any foreign currency contracts to mitigate this risk. The Company holds balances in Canadian dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the US dollar to the Canadian dollar would affect the reported loss and comprehensive loss by approximately \$141,748 (March 31, 2013: \$9,964) as detailed below:

Canadian Dollar Denominated Balances	March 31, 2014	March 31, 2013
Cash	52,531	129,517
Available for sale securities	14,031	1,261,134
Accounts payable	(1,484,039)	(1,291,010)
	(1,417,477)	99,641
10% change in exchange rate impact	\$ 141,748	\$ 9,964

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

- **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. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand.

- The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at March 31, 2014 and March 31, 2013 relating to cash and cash equivalents of \$52,531 and \$129,517 respectively. All cash and cash equivalents are held in deposits at a Canadian chartered bank. The Company considers this credit risk to be minimal for all cash and cash equivalent assets based on changes that are reasonably possible at the reporting date

- **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditure.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

Accounts payable and other liabilities	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Over 5 years	Total
March 31, 2014	\$ 1,484,039	\$ -	\$ -	\$ -	\$ 1,484,039
March 31, 2013	\$ 1,291,010	\$ -	\$ -	\$ -	\$ 1,291,010

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amounts for cash and cash equivalents, restricted cash and trade and other payables approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair Value Hierarchy (continued)

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 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 available-for-sale securities are based on quoted prices and are therefore considered to be Level 1.

The fair value of the warrant liabilities are determined with the use of a fair value pricing model and are determined to be Level 3 liabilities.

15. CAPITAL MANAGEMENT

The company monitors its cash, common shares, warrants and stock options as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development and production of the business.

The company is not exposed to any externally imposed capital requirements nor were there any changes in the Company's capital management processes during the year.

16. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Payments to key management are recorded as management, consulting and directors' fees. During the year ended March 31, 2014, the Company incurred share-based payment charges for its key management totaling \$40,696 (2013: \$650,204).

In addition, the following related key management compensation transactions were incurred:

	<u>March 31, 2014</u>		<u>March 31, 2013</u>
Consulting fees	\$ -	\$	71,832
Directors fees	-		99,618
Management fees and salaries	407,642		572,055
	<u>\$ 407,642</u>	<u>\$</u>	<u>743,505</u>
Unpaid and accrued management fees included in accounts payable	\$ 436,184	\$	-

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17. SEGMENTED REPORTING

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities.

18. LOSS PER SHARE

Basic loss per share amounts is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. (2014: 160,264,781; 2013: 147,735,508)

The basic and diluted loss per share is the same as there are no instruments that have a dilutive effect on earnings. Diluted loss per share for each of years presented excludes the effect of potentially dilutive securities including 8,990,500 share purchase options (2013: 10,349,000 options) and 18,049,000 share purchase warrants (2013: 17,194,000 warrants) as their inclusion in the calculation of diluted loss per share would have been anti-dilutive.

19. EVENTS SUBSEQUENT TO THE PERIOD END

Subsequent to March 31, 2014, the Company announced a settlement agreement with Management of the Company. The Company will issue a total of 16,250,000 common shares in consideration for settlement of debts of \$325,000. The agreement is subject to regulatory approval, and the common shares will be subject to a four-month hold. In connection with the settlement of debt for shares, Management agreed to forgive certain amounts owing and to amend their existing management agreements to remove bonus and RRSP contribution obligations, reduce change in control benefits to 6 months and reduce management fees to \$7,500 and \$5,000 per month for the CEO and CFO, respectively. These shares have yet to be issued.