EVOLVING GOLD

# UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Expressed in US dollars**

**For the three month period ended June 30, 2014 and 2013**

## Notice to Reader

Under National instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements have been prepared by and are the responsibility of management.

The Company's Independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

## Contents

## Evolving Gold Corp.

### CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### Unaudited - Expressed in United States Dollars

### For the three month period ended June 30, 2014

| | Note | June 30, 2014 | March 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | **5** | $ 210,868 | $ 52,531 |
| Available for sale securities | **6** | 156,722 | 14,031 |
| GST receivable | | 1,950 | 21,346 |
| Other receivable | | - | 14,000 |
| Prepaid expenses | | 77,232 | 23,942 |
| | | 446,772 | 125,850 |
| **Non-Current Assets** | | | |
| Property, plant and equipment | **8** | 38,864 | 50,581 |
| Exploration and evaluation assets | **7** | 8,995,694 | 9,483,240 |
| **Total Assets** | | **$ 9,481,330** | **$ 9,659,671** |
| **Liabilitites** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | **10** | $ 243,992 | $ 1,484,039 |
| | | 243,992 | 1,484,039 |
| **Other Liabilities** | | | |
| Deferred and long term debt | **10** | $ 1,226,121 | - |
| Warrant liability | **11** | 42,436 | 97,890 |
| Asset retirement obligation | **9** | 686,273 | 686,273 |
| | | 1,954,830 | 784,163 |
| **Shareholders' Equity** | | | |
| Share Capital | **11** | 75,471,732 | 75,471,732 |
| Reserves | **11** | 1,815,403 | 1,805,993 |
| Accumulated other comprehensive income | | 29,752 | - |
| Deficit | | (70,034,379) | (69,886,256) |
| **Total Equity** | | 7,282,508 | 7,391,469 |
| **Total Liabilities and Shareholders' Equity** | | **$ 9,481,330** | **$ 9,659,671** |
| **Events subsequent to the period end** | **17** | | |

**SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:**

| | |
|---|---|
| ***"R. Bruce Duncan"*** | ***"William Majcher"*** |
| Director | Director |

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

**Evolving Gold Corp.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**Unaudited - Expressed in United States Dollars**

**For the three month period ended June 30, 2014**

| | Note | Three month period ended June 30, 2014 | 2013 |
|---|---|---|---|
| **Expenses** | | | |
| Accounting and audit | | $ - | $ 50 |
| Depreciation | **8** | 11,717 | 16,747 |
| Bank charges and interest | | 1,337 | 1,543 |
| Consulting | | - | 4,886 |
| Legal | | 14,985 | 3,404 |
| Management fees | **15** | 34,372 | 78,990 |
| Office, rent and salaries | | 37,855 | 83,498 |
| Share-based payments | **12** | 9,410 | - |
| Transfer agent and filing fees | | 19,843 | 48,561 |
| Travel | | - | 2,446 |
| | | (129,519) | (240,125) |
| **Other Items** | | | |
| Change in fair value of warrant liability | 11 | 55,455 | 362,663 |
| Foreign Exchange | | (74,059) | (16,466) |
| Interest and other income | | - | 29,412 |
| **Net income (loss) for the period** | | (148,123) | 135,484 |
| **Other comprehensive loss** | | | |
| Unrealized gain (loss) on available for sale securities | | 29,752 | (636,449) |
| **Comprehensive loss** | | **$ (118,371)** | **$ (500,965)** |
| **Loss per share from continuing operations:** | | | |
| - basic | | (0.01) | (0.03) |
| - diluted | | (0.01) | (0.03) |

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

**Evolving Gold Corp**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**Unaudited - Expressed in United States Dollars**

**For the three month period ended June 30, 2014**

| | | Share Capital | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Number of shares | Amount | Reserves | Accumulated other comprehensive income (loss) | Deficit | Total Shareholders' Equity |
| **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** |
| Unrealized loss on available for sale securities | | - | - | - | (636,449) | - | (636,449) |
| Net loss for the period | | - | - - | - | - | 135,484 | 135,484 |
| **Balance at June 30, 2013** | | **156,589,000** | **$ 75,331,448** | **$ 8,875,576** | **$ (636,449)** | **$ (41,163,484)** | **$ 42,407,091** |
| | | | | | | | |
| **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** |
| Shares issued for property payments | 11 | - | - | 9,410 | - | - | 9,410 |
| Unrealized loss on available for sale securities | | - | - | - | 29,752 | - | 29,752 |
| Net loss for the period | | - | - - | - | - | (148,123) | (148,123) |
| **Balance at June 30, 2014** | | **162,609,000** | **$ 75,471,732** | **$ 1,815,403** | **$ 29,752** | **$ (70,034,379)** | **$ 7,282,508** |

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

**Evolving Gold Corp**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Unaudited - Expressed in United States Dollars**

**For the three month period ended June 30, 2014**

| | Three month period ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| **Operating Activities** | | |
| Net loss for the period | $ (148,123) | $ 135,484 |
| **Adjustments to reconcile net loss to cash used in operating activities:** | | |
| Share-based payments | 9,410 | - |
| Amortization | 11,717 | 16,747 |
| Change in fair value of warrant liability | (55,454) | (371,124) |
| Unrealized gain on marketable securities | 29,752 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | 33,396 | 113,138 |
| Prepaid expenses & other current assets | (53,290) | (6,894) |
| Accounts payable & accrued liabilities | (1,240,047) | 22,275 |
| Deferred and long term debt | 1,226,121 | - |
| Cash used in operating activities - continuing operations | (186,518) | (90,374) |
| **Financing activities:** | | |
| Funds received from sale of securities | - | 176,190 |
| Property payments received | 511,657 | - |
| Available for sale securities | (142,691) | - |
| Bond refunds | - | 138,705 |
| **Cash provided by financing activities** | **368,966** | **314,895** |
| **Investment activities:** | | |
| Mineral property expenditures | (24,111) | (267,641) |
| Acquistion of property and equipment | - | 6,002 |
| **Cash used in investment activities** | **(24,111)** | **(261,639)** |
| **Net change in cash and cash equivalents** | 158,337 | (37,118) |
| **Cash and cash equivalents, beginning balance** | 52,531 | 129,517 |
| **Cash and cash equivalents, ending balance** | **$ 210,868** | **$ 92,399** |

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

# 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 August 4, 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:

| | | Percentage owned | |
|---|---|---|---|
| | incorporation Jurisdiction | June 30, 2014 | March 31, 2014 |
| 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.

## 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 June 30, 2014, the Company has incurred a net loss of $148,123 for the period, and has an accumulated deficit of $70,034,379 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 of the Company are set out in Note 3 to the annual audited Consolidated Financial Statements as of and for the year ended March 31, 2013, which are incorporated herein by reference. The reader is referred to those statements for a detailed discussion of the accounting policies.

These condensed consolidated interim financial statements as at and for the three month period ended June 30, 2014 have been prepared in accordance with the policies described in the annual audited Consolidated Financial Statements, which have been applied consistently to these 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 estimates and assumptions of the Company are set out in Note 4 to the annual audited Consolidated Financial Statements as of and for the year ended March 31, 2013, which are incorporated herein by reference. The reader is referred to those statements for a detailed discussion of the accounting policies.

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.

## 5. CASH AND CASH EQUIVALENTS

Cash at banks and on hand earn interest at floating rates based on daily bank deposit rates. As at June 30, 2014, cash and cash equivalents consisted of $210,868 (March 31, 2014: $52,531) held in commercial deposit accounts with a Canadian Chartered Bank.

**Unaudited - Expressed in United States Dollars**

## 6. AVAILABLE FOR SALE SECURITIES

Available for sale securities consist of investments in the common shares of Prosperity Goldfields Corp. and NV Gold 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, 2014** |
| **Prosperity Goldfields Corp** | | |
| June 30, 2014 – 408,504; March 2014- 408,504 shares | $11,484 | $14,031 |
| **NV Gold Corp** | | |
| March 2014 – 1,000,000 warrants; March 2014 - nil warrants | 145,238 | - |
| | $156,722 | $14,031 |

During the three month period ended June 30, 2014, the Company received 1 million warrants of NV Gold Corp as consideration for the optioning of the Rattlesnake Property. A comprehensive gain of $29,752 was recorded as of June 30, 2014 to reflect the increase in the fair value of these warrants between receipt and the quarter end.

During the year ended March 31, 2014, the Company recorded a loss on sale of available for sale securities of $767,783.

**Unaudited - Expressed in United States Dollars**

## 7. EXPLORATION AND EVALUATION ASSETS

| | Carlin | Jake Creek | Rattlesnake | **June 30, 2014** | **March 31, 2014** |
|---|---|---|---|---|---|
| Acquisition costs | | | | | |
| Opening Balance | 2,597,593 | 47,123 | 2,978,952 | **5,623,668** | $ **8,066,186** |
| Additions | - | - | - | **-** | 117,780 |
| Write down of mineral properties | - | - | - | **-** | (2,560,298) |
| | 2,597,593 | 47,123 | 2,978,952 | **5,623,668** | **5,623,668** |
| Deferred exploration costs | | | | | |
| Opening balance | 2,381,522 | 1,158,001 | (720,202) | **2,819,321** | **34,143,231** |
| Assays and reports | - | - | - | **-** | 7,612 |
| Drilling | - | - | - | **-** | 5,020 |
| Field expenses | 16,784 | - | 133 | **16,917** | 408,314 |
| Geological consulting | 182 | 329 | - | **511** | 198,116 |
| Geophysical and geological studies | - | - | - | **-** | 695 |
| Land maintenance | 5,048 | - | 1,635 | **6,683** | 51,550 |
| | 2,403,536 | 1,158,330 | (718,434) | **2,843,432** | **34,814,538** |
| Reclamation bonds | 167,978 | - | 286,000 | **453,978** | **453,978** |
| Asset retirement obligation | 370,273 | 30,000 | 286,000 | **686,273** | **686,273** |
| Write-down of mineral properties | - | - | - | **-** | **(31,995,217)** |
| Property payment | - | - | (611,657) | **(611,657)** | **(100,000)** |
| | 538,251 | 30,000 | (39,657) | **528.594** | **(30,954,966)** |
| | **$ 5,539,380** | **$ 1,235,453** | **2,220,861** | **8,995,694** | **$ 9,483,240** |

## 7. 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 certain properties adjacent to the above mentioned properties as well as additional properties which fell within the 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.

## 7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

**Carlin Mineral Property**

Carlin is 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 February 28, 2010 the Company signed a mineral lease and royalty buy down agreement comprising eight unpatented mining claims The agreement has 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 the agreement the Company is required to pay advance royalty payments as follows:

- $ 10,000 on February 28, 2011 to 2015 (paid $40,000)
- $ 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

The agreement is 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.

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. 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. 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.

At March 31, 2014, the Company assessed the carrying amount of its Carlin property for indicators of impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, being 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. The recoverable value of Carlin was determined 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.

## 7. 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. During fiscal 2014, the Company reduced its claims, retaining a core property position.

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.

**Unaudited - Expressed in United States Dollars**

## 8. PROPERTY PLANT AND EQUIPMENT

| | Office Furniture and Equipment | Computer Equipment and software | Leasehold Improvements | Total |
|---|---|---|---|---|
| Cost: | | | | |
| March 31, 2014 | 133,494 | 115,617 | 18,910 | 268,021 |
| Additions | - | - | - | - |
| disposals | - | - | - | - |
| **June 30, 2014** | 133,494 | 115,617 | 18,910 | 268,021 |
| Depreciation: | | | | |
| March 31, 2014 | (120,779) | (88,759) | (7,902) | (217,440) |
| Additions | (4,837) | (5,912) | (967) | (11,717) |
| disposals | - | - | - | - |
| **June 30, 2014** | (125,616) | (94,671) | (8,869) | (229,157) |
| **Net book value:** | | | | |
| **At March 31, 2014** | **12,715** | **26,858** | **11,008** | **50,581** |
| **At June 30, 2014** | **7,878** | **20,946** | **10,041** | **38,864** |

| | 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** |

**Unaudited - Expressed in United States Dollars**

## 9. ASSET RETIREMENT OBLIGATIONS

The Company estimated the present value of its Carlin, Jake Creek and Rattlesnake Hills Mineral Property future reclamation obligations as legally required by United States Federal and State Government permitting requirements. 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 and on its Nevada properties. As a result of this re-evaluation, the Company considered the balance as of that date to represent the baseline against which changes would be measured.

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 during the year ended March 31, 2014 or the three month period ended June 30, 2014.

The asset retirement obligations are as follows:

| | | June 30, 2014 | | March 31, 2014 |
|---|---|---|---|---|
| Opening balance | $ | 686,273 | $ | 686,273 |
| Additions | | - | | - |
| | **$** | **686,273** | **$** | **686,273** |

## 10. ACCOUNTS PAYABLE AND DEFERRED DEBT

On April 28, 2014, the Company announced its intent to enter into a private placement agreement with certain related parties of the Company in order to issue shares for debt, and to enter into similar arrangements with other creditors.

In connection with the settlement of debt by way of the issuance of common shares, the management contracts of the Company CEO and CFO were both amended to remove bonus and RRSP contribution obligations, reduce change in control benefits to 6 months and reduce management fees to $7500 and $5000 per month respectively. As of June 30, 2014, a total of C$519,691 was deferred to long term debt, pending equity or other settlement.

The Company also entered into discussions regarding additional debt settlement agreements with certain vendors. During the quarter, certain key vendors agreed to the postponement and, in some cases, a reduction of the debt outstanding upon final settlement.

As a result of the above noted agreements and negotiations, as of June 30, 2014 a total of US$1,226,121 in management fees and third party payables was reclassified and deferred to long term debt, pending final equity or other settlement on terms established with the vendors.

## 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 three month period ended June 30, 2014 and the year ended March 31, 2014, are summarized in the Consolidated Statement of Shareholders' Equity included in these financial statements.

There were no transactions during the three month period ended June 30, 2014.

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.
- 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).

**Unaudited - Expressed in United States Dollars**

## 11. SHARE CAPITAL AND RESERVES (CONTINUED)

a) **Share Purchase Warrants**

The following is a summary of changes in warrants for the period ended June 30, 2014 and year ended March 31, 2014:

| | June 30, 2014 | | March 31, 2014 | |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted average exercise price (CDN $)** | **Number of warrants** | **Weighted average exercise price (CDN $)** |
| Warrants outstanding, beginning of period | 18,000,000 | $ 0.51 | 17,145,000 | $ 0.51 |
| Warrants issued | - | - | 6,000,000 | 0.08 |
| Warrants expired | - | - | (5,145,000) | 0.04 |
| Warrants outstanding, end of period | 18,000,000 | $ 0.51 | 18,000,000 | $ 0.51 |

As at June 30, 2014 and 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.

During the year ended March 31, 2014, the Company granted 6,000,000 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).

As at June 30, 2014, the fair value of the warrants was $42,436 (March 31, 2014: $97,890). As a result, for the three month period ended June 30, 2014, the Company has recorded the change in fair value of its warrant liabilities in the statement of comprehensive income of $55,454 (year ended March 31, 2014 a loss totaling $473,358).

The warrant liabilities are summarized as follows:

| | **June 30, 2014** | **March 31, 2014** |
|---|---|---|
| Balance, beginning of the year | $97,890 | $421,330 |
| Additions | - | 149,918 |
| Change in fair value | (55,454) | (473,358) |
| **Balance, end of the year** | **$42,436** | **$97,890** |

**Unaudited - Expressed in United States Dollars**

## 11. SHARE CAPITAL AND RESERVES (CONTINUED)

b) **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, 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** |
| Share-based payments | | 9,410 |
| **Balance, March 31, 2014** | **$** | **1,815,403** |

**Unaudited - Expressed in United States Dollars**

## 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.

Details of options outstanding as at June 30, 2014 and March 31, 2014 are as follows:

| | Number of options | March 31, 2014 Weighted average exercise price (CDN $) | | Number of options | March 31, 2014 Weighted average exercise price (CDN $) | |
|---|---|---|---|---|---|---|
| Options outstanding, beginning of period | 8,990,500 | $ | 0.39 | 10,349,000 | $ | 0.52 |
| Options granted | - | | - | 2,900,000 | $ | 0.05 |
| Options exercised | - | | - | - | | - |
| Options cancelled | - | | - | - | | - |
| Options expired | - | | - | (4,258,500) | $ | 0.48 |
| **Options outstanding, end of period** | **8,990,500** | **$** | **0.39** | **8,990,500** | **$** | **0.39** |
| **Options exercisable, end of period** | **8,090,500** | **$** | **0.43** | **7,190,500** | **$** | **0.47** |

| 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** |

**Unaudited - Expressed in United States Dollars**

## 12. STOCK BASED PAYMENTS (CONTINUED)

**Fair Value of Options Issued During the Period**

No options were issued during the three month period ended June 30, 2014. 2,900,000 options granted during the year ended March 31, 2014. The weighted average fair value at grant date of options granted during the year ended March 31, 2014 was $0.04.

**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 and vested during the three month period ended June 30, 2014 and the year ended March 31, 2014 included:

| | June 30, 2014 | March 31, 2014 |
|---|---|---|
| Share price on grant date | CDN $0.02 | CDN $0.04 |
| Exercise price | CDN $0.05 | CDN $0.05 |
| Risk-free interest rate | 1.71% | 1.71% |
| Expected life (yrs.) | 4.5 | 5 |
| Volatility | 96.97% | 96.97% |
| 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 three month period ended June 30, 2014 and the year ended March 31, 2014 as part of employee benefit expense were $9,410 (2013 - $54,883).

**Amounts Capitalized Arising from Share-based Payment transactions**

No amounts were capitalized during the three month period ended June 30, 2014 or the year ended March 31, 2014.

## 13. 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, polices 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 $12,598 (March 31, 2014: $141,748) as detailed below:

| **Canadian Dollar Denominated Balances** | **June 30, 2014** | **March 31, 2014** |
|---|---|---|
| Cash | 210,868 | 52,531 |
| Available for sale securities | 156,722 | 14,031 |
| Accounts payable | (243,992) | (1,484,039) |
| | 123,598 | (1,417,477) |
| **10% change in exchange rate impact** | **$ 12,598** | **$ 141,748** |

**Unaudited - Expressed in United States Dollars**

## 13. 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 June 30, 2014 and March 31, 2014 relating to cash and cash equivalents of $210,868 and $52,531 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 |
|---|---|---|---|---|---|
| June 30, 2013 | $ 243,992 | $ - | $ 1,226,121 | $ - | $ 1,470,113 |
| March 31, 2014 | $ 1,484,039 | $ - | $ - | $ - | $ 1,484,039 |

**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:**

**Unaudited - Expressed in United States Dollars**

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:

## 13. 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.

## 14. 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.

## 15. 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 three month period ended June 30, 2014 and the year ended March 31, 2014, the Company incurred share-based payment charges for its key management totaling $nil and $40,696.

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

| | | June 30, 2014 | | March 31, 2014 |
|---|---|---|---|---|
| Management fees and salaries | $ | 34,372 | $ | 407,642 |
| | **$** | **34,372** | **$** | **407,642** |
| Unpaid and accrued management fees included in accounts payable | $ | 471,765 | $ | 436,184 |

## 16. LOSS PER SHARE

Basic loss per share amounts is calculated by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. (June 30, 2014: 162,609,000; March 31, 2014: 160,264,781)

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.

## 17. EVENTS SUBSEQUENT TO THE PERIOD END

On July 25, 2014, the Company announced its listing on the Canadian Stock Exchange ("CSE") and its delisting from the Toronto Stock Exchange ("TSX").

There are no other reportable events subsequent to the period end.