



## **Audited Consolidated Financial Statements**

December 31, 2014 and 2013

# Consolidated Financial Statements

December 31, 2014 and 2013

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## **General information**

### **Directors**

James Ladner

James Wayne Murton (*resigned with effect from April 14, 2015*)

Hans H. Hertell (*joined with effect from April 14, 2015*)

Nikolas Perrault

Paul Yeou

Joe Tai

Sabri Karahan (*joined with effect from April 20, 2015*)

### **Other officers**

David A. Johnson, Legal Counsel and Corporate Secretary

Shahab Jaffrey, Chief Financial Officer

### **Auditors**

Ernst & Young LLP

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
**Colt Resources Inc.**

We have audited the accompanying consolidated financial statements of Colt Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of operations and comprehensive loss, cash flows and changes in equity 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 and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

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

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

We believe that the audit evidence we have obtained in our 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 Colt Resources Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which indicates that Colt Resources Inc. incurred a net loss of \$8,779,577 during the year ended December 31, 2014. This condition, along with other matters as set forth in note 2, indicate the existence of a material uncertainty that may cast significant doubt on Colt Resources Inc.'s ability to continue as a going concern.

*Ernst & Young LLP<sup>1</sup>*

Montreal, Canada  
April 30, 2015

<sup>1</sup> CPA auditor, CA, public accountancy permit no. A122227

**Colt Resources Inc.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

[Canadian dollars]

	December 31, 2014	December 31, 2013
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash <i>[note 9]</i>	159,873	2,263,613
Other receivables <i>[note 10]</i>	521,532	1,020,041
Inventories <i>[note 11]</i>	2,428,972	3,005,757
Prepaid expenses and deposits	367,754	536,288
	<b>3,478,131</b>	<b>6,825,699</b>
<b>Non-current</b>		
Property, plant and equipment <i>[note 12]</i>	1,219,405	1,986,393
Biological assets <i>[note 13]</i>	461,806	1,362,499
Exploration and evaluation assets <i>[note 14]</i>	26,286,184	29,927,351
Goodwill <i>[note 15]</i>	779,542	813,804
Investment in an associate <i>[note 8]</i>	344,647	—
Deposits	558,401	598,023
	<b>33,128,116</b>	<b>41,513,769</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank overdraft <i>[note 9]</i>	322,874	183,188
Accounts payable and accrued liabilities <i>[note 16]</i>	2,526,234	2,812,431
Derivative financial liability - Warrants <i>[notes 17 and 19]</i>	—	953,136
	<b>2,849,108</b>	<b>3,948,755</b>
<b>Non-current</b>		
Senior secured notes <i>[notes 17 and 25]</i>	1,639,399	1,211,355
Deferred income taxes <i>[note 18]</i>	370,933	617,300
Convertible preferred shares <i>[notes 17 and 25]</i>	3,264,520	3,261,481
<b>Total liabilities</b>	<b>8,123,960</b>	<b>9,038,891</b>
<b>Shareholders' equity</b>		
Share capital <i>[note 19]</i>	61,181,617	58,934,878
Warrants <i>[note 19]</i>	1,793,250	1,063,238
Contributed surplus	4,452,025	4,522,611
Equity component of convertible preferred shares	700,628	700,628
Accumulated other comprehensive income	379,973	1,977,283
Accumulated deficit	(43,503,337)	(34,723,760)
<b>Total shareholders' equity</b>	<b>25,004,156</b>	<b>32,474,878</b>
	<b>33,128,116</b>	<b>41,513,769</b>
<b>Going concern</b> <i>[note 2]</i>		
<b>Related party transactions</b> <i>[note 26]</i>		
<b>Commitments</b> <i>[notes 28]</i>		
<b>Subsequent events</b> <i>[note 29]</i>		

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

On behalf of the Board:

Director

Director

**Colt Resources Inc.**

**CONSOLIDATED STATEMENTS OF  
OPERATIONS AND COMPREHENSIVE LOSS**

Year ended December 31  
[Canadian dollars]

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>EXPENSES</b>		
Administrative expenses <i>[note 21]</i>	(2,375,584)	(9,016,639)
Impairment of exploration and evaluation assets <i>[note 14]</i>	(6,198,346)	(441,519)
Gain on disposal of property, plant and equipment	—	—
Depreciation <i>[note 12]</i>	(194,786)	(237,095)
Other loss net <i>[note 11]</i>	(399,757)	(166,015)
<b>Loss from operations</b>	<b>(9,168,473)</b>	<b>(9,861,268)</b>
Interest income	2,818	19,035
Finance costs <i>[note 23]</i>	(539,215)	(314,758)
Change in fair value of derivative financial liability - warrants <i>[note 19]</i>	994,499	464,514
Foreign exchange gain/(loss)	247,468	(342,212)
Share of loss on an investment in associate, net <i>[note 22]</i>	(502,916)	—
<b>Loss before income taxes</b>	<b>(8,965,819)</b>	<b>(10,034,689)</b>
Income tax (recovery)/expense <i>[note 18]</i>		
Current	44,073	84,831
Deferred	(230,315)	111,810
	<b>(186,242)</b>	<b>196,641</b>
<b>Net loss for the year</b>	<b>(8,779,577)</b>	<b>(10,231,330)</b>
<b>Other comprehensive loss</b>		
<i>Other comprehensive income (loss) to be reclassified to profit or loss</i>		
Foreign exchange (loss)/gain on translation of foreign subsidiaries	(1,597,310)	2,655,004
<b>Comprehensive loss for the year</b>	<b>(10,376,887)</b>	<b>(7,576,326)</b>
<b>Net loss per share</b>		
Basic and fully diluted	<b>(0.06)</b>	<b>(0.05)</b>
<b>Weighted average number of outstanding shares</b>		
Basic and diluted	<b>165,406,588</b>	<b>145,591,912</b>

**Going concern** *[note 2]*

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

**Colt Resources Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year ended December 31  
[Canadian dollars]

	2014	2013
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(8,779,577)	(10,231,330)
Items not impacting cash:		
Impairment of exploration and evaluation assets [note 14]	6,198,346	441,519
Accretion expense [note 23]	523,838	217,699
Change in fair value of derivate financial liability - warrants [note 19]	(994,499)	(464,514)
Depreciation [note 12]	194,786	237,095
(Reversal)/Write-down of inventories to net realizable value [note 11]	(3,716)	62,172
Gain on partial disposal of investment in associate [notes 8 and 22]	(971,082)	—
Non-cash recovery of expenses [notes 8 and 22]	(236,966)	—
Gain on issuance of shares by CRME [notes 8 and 22]	(295,352)	—
Share of loss of an investment in associate [notes 8 and 22]	1,769,350	—
Change in fair value of biological assets [note 13]	881,356	106,580
Deferred income taxes [note 18]	(230,315)	111,810
Unrealized foreign exchange (gain)/loss	(289,376)	444,168
	<u>(2,233,207)</u>	<u>(9,074,801)</u>
Change in non-cash working capital	1,097,470	(707,543)
<b>Net cash flows from operating activities</b>	<u>(1,135,737)</u>	<u>(9,782,344)</u>
<b>INVESTMENT ACTIVITIES</b>		
Increase in bank overdraft [note 9]	139,686	183,188
Cash transferred to associate [note 8]	(1,735,000)	—
Decrease in deposits	39,622	6,651
Additions to property, plant and equipment [note 12]	(8,440)	(553,261)
Proceeds on disposal of Property, Plant & Equipment	—	48,678
Additions to exploration and evaluation assets [note 14]	(1,457,425)	(3,815,997)
<b>Net cash flows from investing activities</b>	<u>(3,021,557)</u>	<u>(4,130,741)</u>
<b>FINANCING ACTIVITIES</b>		
Decrease in loan payable	—	(1,345,500)
Proceeds from Issuance of warrants	—	—
Proceeds from Senior Secured Notes financing, net of issuance cost [note 17]	221,000	2,530,500
Net proceeds from partial disposal of investment in associate [note 8]	1,647,615	—
Proceeds from issuance of common shares and warrants, net of issuance cost	175,000	8,671,260
<b>Net cash flows from financing activities</b>	<u>2,043,615</u>	<u>9,856,260</u>
Foreign exchange gain/(loss) on cash	9,939	(153,060)
Net decrease in cash	(2,103,740)	(4,209,885)
Cash, beginning of year	2,263,613	6,473,498
<b>Cash, end of year [note 9]</b>	<u>159,873</u>	<u>2,263,613</u>

**Going concern [note 2]**

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



**Colt Resources Inc.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

Year ended December 31  
[Canadian dollars]

	Share capital	Subscription receipts	Warrants	Contributed surplus	Equity component of preferred shares	Accumulated other comprehensive income (loss)*	Deficit	Total equity
	\$	\$		\$	\$	\$	\$	\$
<b>As at January 1, 2013</b>	48,353,634	2,700,000	195,928	4,522,206	700,628	(677,721)	(24,492,430)	31,302,245
Net loss for the year	—	—	—	—	—	—	(10,231,330)	(10,231,330)
Other comprehensive income	—	—	—	—	—	2,655,004	—	2,655,004
Comprehensive loss for the year	—	—	—	—	—	2,655,004	(10,231,330)	(7,576,326)
Issuance of shares for warrants and options exercised <i>[note 19]</i>	10,173,971	(2,700,000)	—	—	—	—	—	7,473,971
Issuance of common shares, net of share issue costs <i>[note 19]</i>	407,273	—	—	(195,523)	—	—	—	211,750
Share based compensation <i>[note 20]</i>	—	—	77,699	—	—	—	—	77,699
Broker warrants issued <i>[note 19]</i>	—	—	985,539	—	—	—	—	985,539
Warrants expired <i>[note 19]</i>	—	—	(195,928)	195,928	—	—	—	—
<b>As at December 31, 2013</b>	<b>58,934,878</b>	<b>—</b>	<b>1,063,238</b>	<b>4,522,611</b>	<b>700,628</b>	<b>1,977,283</b>	<b>(34,723,760)</b>	<b>32,474,878</b>
Net loss for the year	—	—	—	—	—	—	(8,779,577)	(8,779,577)
Other comprehensive income	—	—	—	—	—	(1,597,310)	—	(1,597,310)
Comprehensive loss for the year	—	—	—	—	—	(1,597,310)	(8,779,577)	(10,376,887)
Issuance of common shares, net of share issue costs <i>[note 19]</i>	1,946,165	—	—	—	—	—	—	1,946,165
Issuance of shares for options exercised <i>[note 19]</i>	300,574	—	—	(125,574)	—	—	—	175,000
Broker warrants issued <i>[note 19]</i>	—	—	—	—	—	—	—	—
Warrants issued <i>[note 19]</i>	—	—	785,000	—	—	—	—	785,000
Warrants expired <i>[note 19]</i>	—	—	(54,988)	54,988	—	—	—	—
<b>As at December 31, 2014</b>	<b>61,181,617</b>	<b>—</b>	<b>1,793,250</b>	<b>4,452,025</b>	<b>700,628</b>	<b>379,973</b>	<b>(43,503,337)</b>	<b>25,004,156</b>

**Going concern** *[note 2]*

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

\* represents foreign exchange attributable to foreign subsidiaries

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### **1. GENERAL INFORMATION**

Colt Resources Inc. and its subsidiaries [the “Company”] is an exploration company engaged in the acquisition, exploration and development of mineral property interests in Portugal. Colt Resources Inc. is publicly traded on the TSX Venture Exchange [Ticker: GTP], the Open Market Segment of the Frankfurt Stock Exchange [Ticker “P01”] and the OTC Pink [Ticker: COLTF].

The Company’s main focus is the continued exploration and development of its gold and tungsten properties in Portugal.

Colt Resources Inc. is incorporated in Canada and operates from its headquarters in Montreal, Canada and also through its wholly owned subsidiary ColtInvestco SGPS S.A. and its subsidiaries, Q.S.P.A. – Sociedade Vitícola Unipessoal Lda. [“QSPA”], Eurocolt Resources Unipessoal Lda. [“Eurocolt”], Aurmont Resources Unipessoal Lda. [“Aurmont”], TungSPA Unipessoal Lda. [“TungSPA”]. These subsidiaries represent the interests of Colt Resources Inc. in Portugal.

The address of the registered office of Colt Resources Inc. is 606 Rue Cathcart, Suite 330, Montreal, Quebec, Canada H3B 1K9.

### **2. GOING CONCERN**

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operation. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. The use of these principles may not be appropriate.

To date, the Company has not earned significant revenue and is considered to be in the exploration and evaluation stage.

The investment in, and expenditures on, exploration and evaluation assets comprise a significant portion of the Company’s assets. Mineral exploration and development is highly speculative and involves inherent risks. Realization of the Company’s investment in these assets is dependent upon the renewed legal ownership of the licenses, and whether an economically viable operation can be established.

In addition, it has not yet been determined whether the Company’s properties contain ore reserves that are economically recoverable. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

The Company's current committed cash resource (including the private placement in note 29) is insufficient to cover expected expenditures in fiscal 2015. The Company's ability to continue as a going concern is also dependent on being able to obtain the necessary financing to satisfy its liabilities as they become due. There can be no assurances that management will be successful in securing adequate financing.

The Company reported net losses in 2014 and 2013 of \$ 8,779,577 and \$10,231,330 respectively. These recurring losses and the need for continued financing to further successful exploration raise substantial doubt as to the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the carrying values of asset and liabilities that might be necessary, if the Company is unable to continue as a going concern. Such adjustments could be material.

### **3. BASIS OF PREPARATION**

#### **Statement of compliance**

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"].

#### **Basis of presentation**

The consolidated financial statements comprise of the financial statements of the Company and its wholly owned subsidiaries.

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention with the exception of certain financial instruments which are measured at fair value.

The Board approved these consolidated financial statements on April 30, 2015.

To conform to the presentation of 2014, the company has reclassified derivative financial liability – warrants, to current liabilities, as of December 31, 2014.

#### **Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of Colt Resources Inc. The functional currency of the Company's subsidiaries in Portugal is the Euro.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### **Basis of consolidation**

The financial statements of the subsidiaries are prepared using the same reporting period and same accounting policies as the Company.

All intra-group balances, income and expenses and unrealized gains and losses, resulting from intra-group transactions are eliminated in full.

### **4. CRITICAL JUDGMENTS AND ACCOUNTING ESTIMATES**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

Key areas requiring critical judgments and significant estimates include:

#### **Control over Structured Entities and Investments – Judgment**

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Company has less than majority of the voting, or similar, rights of an investee, it considers relevant facts and circumstances in assessing whether it has power over the investee, as applicable, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, revenues and expenses of a subsidiary acquired or disposed of during the year included in the consolidated statements operations and comprehensive loss from the date the Company gains control until the date the Company ceases to control the subsidiary.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

In 2013, the Company consolidated results Colt Resources Middle East Cayman ("CRME"), a wholly owned subsidiary, as well as Colt Nimroz Afghanistan Mining Company, Colt Resources Kanz DMCC and Colt Nimruz Resources DMCC, three structured entities. The sole purpose of these Structured Entities was to represent the Company's interest in the Greater Middle East area. The Company considered that it controlled the Structured Entities even though it did not have any voting rights. This is because the sole purpose of the Structured Entities was to manage the Company's assets and expenditures as it related to acquisition of mining licences of advanced stage mining projects in the Greater Middle East area. The Company was exposed to the variability of returns from its involvement with the Structured Entities as the Company also had the ability to direct the Structured Entities through the approval of relevant activities such as the annual budgeted and unbudgeted expenditures and cash disbursements by the board of Colt and of the board of CRME which affected the Company's returns. Accordingly in 2013, the Company had concluded that it controlled the Structured Entities and that they were consolidated within the Company's consolidated financial statements.

During 2014, the Company concluded that it has no control over the Structured Entities. This conclusion was based on the fact that Company transferred all of the assets beneficially owned in the Structured Entities to CRME and the Company was no longer exposed to the variability of returns from its involvement with the Structured Entities and had no ability to direct the Structured Entities through the approval of relevant activities such as the annual budgeted and unbudgeted expenditures and cash disbursements by the board of Colt or of the board of CRME as disclosed below which affected the Company's returns.

Further, the Company also had a dilution in its ownership of CRME and it partially divested its ownership interest in CRME (see Note 8). The Company concluded it had no control over CRME and had no ability to direct CRME through the approval of relevant activities starting in the first quarter of 2014. This was based on the fact that Colt had no majority over CRME's board (Colt being represented by only 1 board member), the majority of the CRME board members had no management or board positions at Colt or controlled Colt, and the absence of substantial rights, potential voting rights or side agreements

The investment in CRME was accounted for as an investment in associate for the period from April 1, 2014 to December 31, 2014 as the Company believes it has significant influence on CRME as the Chief Executive Officer of the Company is also on the board of CRME.

### **Going concern – Judgment**

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year as they fall due, and to fund planned and contractual exploration programs, involves judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### **Exploration and evaluation assets – Judgment and estimate**

Exploration and evaluation assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through future exploitation or sale. Such circumstances include the existence of specific rights to explore in a specific area, actual and planned expenditures, results of exploration, and whether an economically-viable operation can be established. Management also considers any decline in resource prices as well as the decline in the Company's market capitalization as an indicator of impairment. An impairment loss is recognized for the amount by which any exploration and evaluation asset exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation asset's fair value less costs of disposal and value in use.

Management judgment is applied in determining whether to test exploration and evaluation for impairment and in determining the lowest levels of exploration and evaluation assets grouping or cash generating units ["CGU's"], for which there are separately identifiable cash flows, generally on the basis of a property.

With respect to Boa Fe, as a result of the binding letter of **intent signed on February 9, 2015** with an unrelated entity (see note 29), the carrying value exceeded its recoverable amount using a discount rate of 15%. Management used the discounted cash flows based on expected earn-in amounts and percentage ownership to determine the value in use and recoverable amount. As result, an impairment loss of \$4,000,000 was recorded during 2014.

With respect to its Montemor, Borba and Cercal, the Company determined, as at December 31, 2014, that indicators of impairment existed on each property based on current exploration results and it is unlikely that the Company will be able to recover the carrying value. As a result, an impairment loss of \$2,142,801 was recorded during 2014.

For Tabuaco and Santo Antonio, management concluded there were no indicators of impairment. Any changes in the economic assumptions used or the geological information produced during the development and operation of a mine, could materially affect the estimated recoverable amount of the exploration and evaluation assets, which could result in an impairment in the future and such could be material.

### **Functional currency – Judgment**

The functional currency of Colt Resources Inc. is the Canadian dollar and the functional currency of the Company's subsidiaries is the Euro. Management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators before considering the other indicators, which are designed to provide additional supporting evidence to determine the entity's functional currency. Since the Company doesn't generate revenues, the currency in which the expenditures are made is considered by management in determining the functional currency.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### **Fair value of derivative financial liability - warrants– Estimate**

Estimating fair value for warrant requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the warrants. The fair value of warrants is evaluated using the Black-Scholes pricing model at the date of grant. The Company has made estimates as to the expected volatility, and expected life of warrants. The expected volatility is based on the historical volatility of the Company, over the period of the expected life of the warrants. The expected life of the warrant is based on historical data. These estimates may not necessarily be indicative of future actual patterns *[note 19]*.

### **Inventories – Estimate**

Inventories are stated at the lower of cost and net realizable value. The ageing of Port wine bottled or in bulk varies and it can take a significant length of time before the wine inventories are ready to be sold. Net realizable value of grape inventory is determined using forecasted demand and expected market prices at the time the wine is expected to be ready for sale. Forecasted demand and market prices can vary significantly over the holding period and involves estimating the most likely conditions that will be in existence at the time of sale.

The Company's best estimate of net realizable value is based on the average prices published by the "Instituto dos Vinhos do Douro e Porto" which is widely recognized in the region as being a reliable estimate of similar wines sold by the Company. The Company uses this published information as a starting point for estimating the expected sales price of similar wine with similar ageing information and then adjusts for any differences for similar wine.

### **Biological assets – Estimate**

The grape vines are measured at fair value less cost of disposal. Since market-determined prices or values are not available for grape vines, the Company uses a discounted cash flow method to determine fair value. In arriving at fair values, the key assumptions are estimated sales prices less cost of delivery, discount rate, productive life of grape vines, estimated volume and growth estimations. All changes in fair value are recognised in the period in which they arise *[note 13]*.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

#### **Cash**

Cash consist of cash on hand and deposits with banks for obtaining exploration licenses from the date of acquisition which can be converted to a known amount of cash at any time.

#### **Trade and other receivables**

Trade and other receivable are initially measured at fair value and are subsequently carried at amortized cost using the effective interest method less impairment. Losses are recognized in net loss in the consolidated statements of operations and comprehensive loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Where the time value of money is material, receivables are discounted and are carried at their present value. A provision is made where the estimated recoverable amount is lower than the carrying amount.

#### **Inventories**

Inventories include raw material, bottled wine and bulk wine, and are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes the cost of grapes, and direct labor costs and an applicable portion of related production overheads.

#### **Property, plant and equipment**

On initial acquisition, property, plant and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management.

Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment. The depreciable amount of property, plant and equipment comprises the acquisition cost of their components less residual value, which corresponds to the estimated disposal price of the asset at the end of its useful life. Estimates of remaining useful lives, residual values and methods of depreciation are reviewed at each reporting date and adjusted prospectively, if appropriate.



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Depreciation is recorded over the estimated useful economic life as follows:

	<b>Method</b>	<b>Rate</b>
Mining equipment	Declining balance	20%
Buildings	Straight line	10-50 years
Machinery and equipment	Declining balance	30%
Computer and office equipment	Declining balance	30%
Leasehold improvements	Straight-line	Lease term
Automobiles	Declining balance	30%

Repair and maintenance costs are recognized in net loss in the consolidated statements of operations and comprehensive loss as incurred.

When an item of property, plant and equipment is disposed of or when no future economic benefits are expected from its use, it is derecognized and the gain or loss on the difference between its carrying value and proceeds from sale is included in net loss in the consolidated statements of operations and comprehensive loss.

### **Biological assets**

Biological assets consist of grape vines and are measured at the end of each reporting period at its fair value less cost of disposal. Gains and losses arising from changes in fair value less costs to sell are included in other expense, net in the period in which they arise.

Grapes harvested from the Company's biological assets are measured at their fair value less cost to sell at the point of harvest. Such measurement is the cost at that date when transferring the harvest produce to inventory.

### **Exploration and evaluation assets**

Exploration costs related to mining properties and exploration expenditures, including tangible assets and intangible assets including acquisition costs as well as costs relating to research and analyzing exploration data, conducting geological studies, exploratory drilling and sampling, examining and testing extraction and treatment methods, compiling pre-feasibility and feasibility studies, are capitalized on the basis of areas of geological interest until the mining properties to which they relate are placed into production, or impaired. These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off if impaired. General exploration costs not related to specific mining properties or those incurred before the Company has obtained legal rights to explore an area are expensed as incurred.

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From time to time, the Company may acquire or dispose of a property pursuant to the terms of an option agreement. Due to the fact that options are exercisable entirely at the discretion of the option holder, option payments are recorded when the payments are made or received.

The Company does not record any expenditures made by the farmee on its account. It also does not recognize any gain or losses on its exploration and evaluation farming arrangements but redesignates any cost previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received from the farmee is credited to exploration and evaluation assets and any excess recorded as gain or disposal.

Exploration and evaluation assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are reviewed for potential reversals at each reporting date.

### **Investment in associate**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Company's investments in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost unless it is upon loss of control in which case the retained investment is recognized at fair value. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date.

The consolidated statement of operations reflects the Company's share of the results of operations of the associate. Any change in Other Comprehensive Income/Loss ("OCI") of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of loss of an associate is recorded on the consolidated statements of operations outside operating profit and represents profit or loss after tax.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **Impairment**

#### **Investment in associates**

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss as the share of loss in the consolidated statements of operations.

#### **Non-financial assets**

At each reporting date, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. An asset's recoverable amount is determined as the higher of its fair value less costs of disposal and its value-in-use. An impairment loss is recognized immediately in the consolidated statements of operations and comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### **Goodwill**

The Company recognizes goodwill as of the acquisition date as the excess of the cost of the acquisition over the net identifiable assets acquired and liabilities assumed at their acquisition-date fair values. The Company's goodwill balance relates to the Tabuaço property.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU [or group of CGUs] to which the goodwill relates to. For the purpose of testing this goodwill for impairment, any of the related deferred tax liabilities recognised on acquisition that remain at balance date reduce the goodwill amount and any residual goodwill is treated as part of the relevant CGU or group of CGUs. Where the recoverable amount of the CGU is less than its carrying amount including goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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Goodwill, net of related deferred tax liabilities recognised on acquisition, if significant, is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Where the recoverable amount of the CGU is less than its carrying amount including goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### **Deposits**

Deposits are classified as held-to-maturity and measured at amortized cost. Gains and losses are recognized in net loss in the consolidated statements of operations and comprehensive loss when the investments are derecognized or impaired, as well as through the amortization process.

### **Convertible preferred shares**

The liability component of the convertible preferred shares is recognized initially at the fair value, by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows that do not have an associated conversion option. Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest method; the liability component is increased by accretion of the discounted amounts to reach the nominal value of the convertible preferred shares at maturity.

The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability from the amount of the convertible preferred shares and is presented in shareholders' equity as equity component of convertible preferred shares. The equity component is not re-measured subsequent to initial recognition. On conversion or expiry, the equity is reclassified to share capital.

Transaction costs are allocated between liability and equity on a pro-rata basis of their carrying amounts.

### **Senior Secured Notes and Derivative Financial Liability – Warrants**

The Senior Secured Notes and Loan Payable are classified as other financial liabilities and are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost, using the effective interest method.

The Senior Secured Notes consist of a notes payable ("Notes") and warrants to purchase common shares of the Company which are recorded at their pro rata relative fair value. The fair value of the Notes are determined by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows that do have an associated warrant. The fair value of the warrants is estimated using the Black-Scholes option pricing model. Since these warrants have an exercise price denominated in US\$, they are recorded as a derivative financial liability.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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Subsequently, the Notes are measured at amortized cost using the effective interest method and are increased by accretion to reach the nominal value of the Notes at maturity. The warrants are fair valued at each reporting date and the change in fair value compared to the initial pro-rata relative fair value is recorded in the consolidated statements of operations and comprehensive loss along with accretion of the initial difference in fair value with the pro-rated relative fair value using the effective interest rate method.

Costs incurred are allocated to each component of the Senior Secured Notes on a pro-rata basis. Costs allocated to the Notes are netted against the carrying value whereas costs allocated to the warrants are recorded in net loss in the consolidated statements of operations and comprehensive loss.

### **Foreign currency translation**

#### **Foreign operations**

The assets and liabilities of subsidiaries that have a functional currency different from that of the Company are translated into Canadian dollars at the closing rate at the date of the statements of financial position, and revenue and expenses are translated at the average rate for the period and the difference is recorded in accumulated other comprehensive loss. Gains and losses from intercompany foreign currency transactions of a long-term investment nature are included in accumulated other comprehensive loss.

#### **Foreign currency transactions**

Transactions in foreign currencies are initially recorded at exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange ruling at the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. All differences are recorded in the consolidated statements of operations and comprehensive loss.

### **Share capital**

Common shares issued by the Company are recorded in share capital. Proceeds from share unit financings are allocated between common shares and common share purchase warrants by recording the warrants at fair value using the Black-Scholes option pricing model and recording the residual amount as share capital. On the exercise of the warrants, the Black-Scholes related amounts are transferred from warrants to share capital whereas on expiry of the warrants, the Black-Scholes related amounts are transferred from warrants to contributed surplus.

Costs incurred in connection with the issuance of units are allocated to each component of the units on a pro-rata basis of their carrying amounts and netted against each such component.

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### **Share-based compensation**

The Company has an equity-settled compensation plan under which it receives services from employees, directors and consultants as consideration for equity instruments of the Company.

The Company uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards issued to employees and Directors at the grant date. The expense is recognized immediately since such awards vest immediately.

Equity-settled share-based payments with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

All share-based remuneration is recognized as an expense with a corresponding increase to contributed surplus. Upon exercise of share options, the proceeds received are allocated to share capital.

### **Taxes**

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

#### **Current income taxes**

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible and is calculated using tax rates and laws that were enacted or substantively enacted at the reporting date.

Current income tax expense relating to items recognized directly in other comprehensive loss or equity are recognized in other comprehensive loss or equity.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

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### **Deferred tax**

Deferred taxes are income taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the consolidated statements of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. Deferred income taxes are not recognized for temporary differences which arise for initial recognition of an asset or liability that affects neither the accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and liabilities are presented as non-current.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally-enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entities.

Exploration and evaluation assets are recognized net of the amount of commodity taxes except where the commodity taxes incurred are not recoverable from the taxation authority, in which case, the commodity taxes are recognized as part of the cost of exploration and evaluation assets or as part of the expense item as applicable.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **Earnings per share [“EPS”]**

Net loss per share computations are based upon the weighted average number of common shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net income attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the antidilutive effect of the outstanding warrants, preferred shares, share options and similar instruments.

### **Segment reporting**

The Company operates in one business segment that conducts acquisition and exploration of mineral property interests and in two geographical areas, primarily in Canada and Portugal. Segment information is provided on the basis of geographical areas in note 27. The information provided is consistent with the internal reporting provided to the chief operating decision maker.

## **6. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED**

The nature and the impact of each new standard/amendment are described below:

### **New standards issued and effective**

#### *IFRIC Interpretation 21 Levies (IFRIC 21)*

IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and applied retrospectively. The adoption did not have any impact on the Company's consolidated financial statements.



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### *Amendments to IAS 36 Impairment of assets*

IAS 36, Impairment of Assets (IAS 36) was amended by the IASB in May 2013. The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. This amendment to IAS 36 was effective for the Fund on January 1, 2014 and must be applied retrospectively. The adoption did not have any impact on the Company's consolidated financial statements.

## **7. NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The standards and interpretations listed below that are issued but not yet effective up to the date of issuance of the Company's consolidated financial statements, are those that the Company reasonably expects will have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company is currently assessing the impact of adoption that IFRS 9 and plans to adopt the new standard on the required effective date.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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### *IAS 1 Presentation of Financial Statements*

In December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements ("IAS 1") to clarify materiality, order of notes to financial statements, disclosure of accounting policies as well as aggregation and disaggregation of items presented in the statement of financial position, statement of income and statement of comprehensive income. These amendments shall be applied to fiscal years beginning on or after January 1, 2016, with earlier application permitted. The Company has not adopted the amendments to IAS 1 in its financial statements for the current period, but will continue to monitor and evaluate the impact of any required changes to its consolidated financial statements at the date of adoption.

### *IAS 41 Agriculture*

In June 2014, the IASB published amendments that change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. IAS 41 Agriculture currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants.

The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company is currently assessing the impact of the amendments and plans to adopt the new standard on the required effective date.

## **8. INVESTMENT IN ASSOCIATE**

During 2013, the Company incurred approximately \$4,000,000 for its Middle Eastern initiatives. During March 2014, CRME, previously, a wholly owned subsidiary of the Company completed a private placement whereby it issued a total of 27,500,000 shares at C\$0.15 per share for gross proceeds of \$4,125,000. Of this amount, CRME reimbursed \$1,500,000 to the Company in two instalments on February 19, 2014 and March 13, 2014 respectively. Additionally, the Company's interest in CRME was diluted and the Company received 16,665,001 common shares of CRME valued at C\$0.15 per share for an amount of \$2,500,000 reducing its equity interest in Colt Middle East to 37.73% of the outstanding common shares, thereby recouping the initial investment of \$4,000,000 at the end of March 31, 2014. As part of the dilution and the loss of control, the Company de-recognized assets which included transfer of cash of \$1,735,000 and certain automobiles for \$528,034 to CRME. The balance of \$1,736,966 (note 21) was accounted for as recovery of expenses in the consolidated statements of operations and comprehensive loss. The remaining interest in CRME was recorded at its fair value upon that date.

## Colt Resources Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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In June 2014, the Company disposed 4,444,444 common shares of its investment in CRME to its former executive chairman at C\$0.225 per share for a total amount of approximately C\$1,000,000. During September and October 2014, the Company disposed 5,056,352 common shares of CRME at an average of C\$0.13 per share for total proceeds of C\$647,615, including disposing 2,631,980 CRME shares to its former executive chairman. As a result of this transaction, the Company's share in CRME was reduced to 13.88% as at December 31, 2014.

CRME is a private entity that is not listed on any public exchange and is involved in exploration activities in the Greater Middle East area. The Company's interest in Colt Middle East has been accounted for using the equity method in the consolidated financial statements as the Company has a significant influence having one out of five directors on the CRME board.

The following table illustrates the summarized financial information of CRME and the proportionate carrying amount of the Company's investment in CRME as at December 31, 2014

	<b>December 31, 2014</b>
	<u>\$</u>
<b>Balance Sheet</b>	
Current assets	379,834
Non-current assets	3,017,124
Current liabilities	(913,124)
<b>Net assets</b>	<b>2,483,834</b>
Proportion of the Company's ownership	13.88%
<b>Investment at December 31, 2014</b>	<u><b>344,647</b></u>
	<b>2014</b>
	<u>\$</u>
As at April 1, 2014	2,500,000
Share of losses (Note 22)	(1,769,350)
Effect of dilution of shareholding	295,352
Carrying amount of investment disposed	(681,355)
<b>As at December 31, 2014</b>	<u><b>344,647</b></u>
	<b>Total</b>
	<u>\$</u>
<b>Loss and Comprehensive Loss</b>	
Expenses	5,788,413
Average proportion of the Company's ownership	30.57%
<b>Company's share of loss for the period</b>	<u><b>1,769,350</b></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 9. CASH AND BANK OVERDRAFT

	2014 \$	2013 \$
Cash at banks	<u>159,873</u>	<u>2,263,613</u>

Cash at banks earn interest at floating rates based on daily bank deposit rates or prime rates.

The Company's QSPA operations have a bank overdraft facility in the total amount of \$350,950 [€250,000] renewed every six months of which \$322,874 [€230,000] was outstanding as at December 31, 2014 [2013: \$183,188 [€125,000]]. The line of credit bears interest at 6 months Euribor plus a margin of 5% and is secured by QSPA's current assets and liabilities. Euribor rate at December 31, 2014 is 1.71% (2013: - 3.89%).

### 10. OTHER RECEIVABLES

	2014 \$	2013 \$
Trade receivables, net of allowance [2014: Nil; 2013:\$7,198]	418,466	666,544
Commodity taxes receivable	56,845	335,593
Other receivables	46,221	17,904
	<u>521,532</u>	<u>1,020,041</u>

Trade receivables are non-interest bearing and are generally on a term of 30 to 60 days.

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**11. INVENTORIES**

	<b>2014</b>	<b>2013</b>
	\$	\$
Raw material	<b>68,869</b>	49,892
Bottled wine	<b>488,721</b>	965,108
Bulk wine	<b>1,871,382</b>	1,990,757
	<b>2,428,972</b>	3,005,757
Revenue from sale of wine	<b>694,939</b>	897,812
Cost of goods sold	<b>(536,324)</b>	(895,076)
	<b>158,615</b>	2,736
Government grant	<b>294,703</b>	—
Reversal/ (write down) of inventory to net realizable value	<b>3,716</b>	(62,171)
Change in value of biological assets <i>[note 13]</i>	<b>(881,356)</b>	(106,580)
Other	<b>24,565</b>	—
	<b>(399,757)</b>	(166,015)

During the year, the Company received the remainder of a previously approved grant for the Company's winery operations as a result of past expenditures incurred. There are no associated future related costs, conditions or contingencies attached to this grant.

**Colt Resources Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**12. PROPERTY, PLANT AND EQUIPMENT**

	Equipment \$	Building \$	Machinery & Equipment \$	Computer & Office Equip \$	Leasehold Improvement \$	Automobiles \$	Total \$
<b>Cost</b>							
As at December 31, 2012	27 797	1 083 986	52 674	482 847	88 335	136 165	1 871 804
Additions	-	3 749	14 012	7 466	-	528 034	553 261
Disposal	-	-	-	-	-	(48 678)	(48 678)
Foreign currency translation adjustment	3 257	127 006	6 172	48 659	-	15 961	201 055
<b>As at December 31, 2013</b>	<b>31 054</b>	<b>1 214 741</b>	<b>72 858</b>	<b>538 972</b>	<b>88 335</b>	<b>631 482</b>	<b>2 577 442</b>
Additions	-	-	5 876	2 564	-	-	8 440
Transfer out	-	-	-	-	-	(528 034)	(528 034)
Foreign currency translation adjustment	(4 049)	(51 143)	(3 681)	(11 510)	-	(3 085)	(73 468)
<b>As at December 31, 2014</b>	<b>27 005</b>	<b>1 163 598</b>	<b>75 053</b>	<b>530 026</b>	<b>88 335</b>	<b>100 363</b>	<b>1 984 380</b>
<b>Accumulated depreciation</b>							
As at December 31, 2012	8 524	53 967	20 682	146 606	51 529	55 417	336 725
Change for the year	4 601	42 308	19 096	120 719	29 445	20 926	237 095
Foreign currency translation adjustment	1 323	9 311	3 772	20 978	-	7 977	43 361
Disposal	-	-	-	-	-	(26 132)	(26 132)
<b>As at December 31, 2013</b>	<b>14 448</b>	<b>105 586</b>	<b>43 550</b>	<b>288 303</b>	<b>80 974</b>	<b>58 188</b>	<b>591 049</b>
Change for the period	276	44 522	23 532	117 887	7 361	1 208	194 786
Foreign currency translation adjustment	3 132	(5 538)	(3 102)	(27 606)	-	12 254	(20 860)
<b>As at December 31, 2014</b>	<b>17 856</b>	<b>144 570</b>	<b>63 980</b>	<b>378 584</b>	<b>88 335</b>	<b>71 650</b>	<b>764 975</b>
<b>Net book value</b>							
December 31, 2012	19 273	1 030 019	31 992	336 241	36 806	80 748	1 535 079
December 31, 2013	16 606	1 109 155	29 308	250 669	7 361	573 294	1 986 393
<b>As at December 31, 2014</b>	<b>9 149</b>	<b>1 019 028</b>	<b>11 073</b>	<b>151 442</b>	<b>-</b>	<b>28 713</b>	<b>1 219 405</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013  
 [All amounts disclosed are in Canadian dollars unless otherwise stated]

### 13. BIOLOGICAL ASSETS

	\$
As at December 31, 2012	1,467,690
Change in fair value	(106,580)
Change due to harvest	(152,290)
Foreign currency translation adjustment	153,679
<b>As at December 31, 2013</b>	<b>1,362,499</b>
Change in fair value	(881,356)
Change due to harvest	(11,855)
Foreign currency translation adjustment	(7,482)
<b>As at December 31, 2014</b>	<b>461,806</b>

Biological assets consist of grape vines and are all in production. The grapes harvested are used in the wine making process. As at December 31, 2014, the Company held grape vines planted on 27.25 hectares of land [2013 – 27.04 hectares].

During the year, the Company harvested 104 tonnes of grapes [2013 – 114 tonnes].

The significant assumptions used to determine the fair value of vines planted are as follows:

	<b>2014</b>	<b>2013</b>
Yield	<b>3 807kg/ha</b>	4 235kg/ha
Discount rate	<b>4.5%</b>	4.5%
Annual vineyard operating costs	<b>70,000€/ha</b>	50,000€/ha
Selling price less delivery costs	<b>0.3€- 1.3€/ kg</b>	0.5€- 1.7€/ kg
Remaining life	<b>32 years</b>	33 years

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

## 14. EXPLORATION AND EVALUATION ASSETS

	December 31, 2013	Additions/ (Disposals)	Foreign currency translation adjustments	Impairment	December 31, 2014
	\$	\$	\$		
Tabuaço	13,574,891	1,429,919	(535,995)	—	14,468,815
Santo António (formerly Penedono)	2,912,614	—	—	—	2,912,614
Boa Fé	11,682,912	1,717,158	(495,315)	(4,000,000)	8,904,755
Montemor-o-Novo	1,491,881	390,961	(62,775)	(1,820,067)	—
Cedovim	55,575	—	(30)	(55,545)	—
Cercal	180,817	43,724	(7,486)	(217,055)	—
Borba	28,661	80,663	(3,645)	(105,679)	—
	<b>29,927,351</b>	<b>3,662,425</b>	<b>(1,105,246)</b>	<b>(6,198,346)</b>	<b>26,286,184</b>

	December 31, 2012	Additions/ (Disposals)	Foreign currency translation adjustments	Impairment	December 31, 2013
	\$	\$	\$		
Tabuaço	10,997,708	1,489,788	1,087,395	—	13,574,891
Santo António (formerly Penedono)	2,942,191	(29,577)	—	—	2,912,614
Boa Fé	9,324,634	1,671,136	687,142	—	11,682,912
Montemor-o-Novo	946,277	434,731	110,873	—	1,491,881
Moimenta Almedra	430,578	10,941	—	(441,519)	—
Cedovim	23,340	29,500	2,735	—	55,575
Cercal	—	180,817	—	—	180,817
Borba	—	28,661	—	—	28,661
	<b>24,664,728</b>	<b>3,815,997</b>	<b>1,888,145</b>	<b>(441,519)</b>	<b>29,927,351</b>

Non-cash additions amounted to \$2,205,000 for the year ended December 31, 2014. [2013 – nil]

**Intangibles**

Intangible assets included in exploration for and evaluation assets amounted to \$22,805,201 as at December 31, 2014 [2013 – \$26,293,371].



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### Tangibles

The detail of property, plant and equipment included in exploration and evaluation assets relating to Tabuaço are as follows:

	Land \$	Building \$	Total \$
As at December 31, 2012	1,818,513	1,432,242	3,250,755
Additions	—	2,345	2,345
Foreign currency translation adjustment	213,070	167,810	380,880
As at December 31, 2013	2,031,583	1,602,397	3,633,980
Foreign currency translation adjustment	(85,533)	(67,464)	(152,997)
<b>As at December 31, 2014</b>	<b>1,946,050</b>	<b>1,534,933</b>	<b>3,480,983</b>

### PORTUGUESE MINING INTERESTS

#### Tabuaço [Tungsten]

The Company holds a 100% interest in the Tabuaço property, which has an area of 45.128 km<sup>2</sup> located in north central Portugal. The Tabuaço Experimental Mining License, which replaces the Company's Armamar-Meda concession was granted to the Company on February 20, 2013.

#### Contractual Obligations

The initial term of the Tabuaço Experimental Mining License is for a period of four years from February 20, 2013 to February 20, 2017. The term may be extended for an additional period of one year.

During the initial term, the Company is obligated to incur prospecting and exploration expenditures of not less than €4,500,000 [\$6,300,000].

The Company lodged a bank guarantee in favor of the Government of Portugal for the amount of €225,000 [\$315,000] in respect of the Tabuaço Experimental Mining License. The related bank deposit amounts to €112,500 [\$157,500] and has been recorded as deposits in the consolidated statements of financial position as at December 31, 2014 [2013: €112,500 [\$164,869]].

Upon expiry of the term, the Company will not be required to relinquish any portion of the area covered by the Tabuaço Experimental Mining License if it is successful in receiving an extension of one year.

The Company is obligated to pay to the Government of Portugal an annual license fee of €12,000 [\$16,800] for the ground covered by its Tabuaço Experimental Mining license.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

At any time during the initial term and the one year extension, the Company may apply for an exploitation license, which if granted, will have a term of 30 years and which may be extended with the approval of the Portuguese Government, for a period not exceeding 20 years.

Upon the granting of an exploitation license, and in the event that mining activities are to take place, then the Company will be obligated, at the Portuguese Government's sole discretion, either to pay 10% of the net profit derived from its mining activities, as defined, or, alternatively, pay a Net Smelter Return (NSR) up to 4% depending on the price of the metric ton unit (mtu). DGEG may request a payment in kind up till 5% of the total payment due.

On granting of an exploitation license the Company will be obligated to pay €50,000 [\$70,000] as a commercial discovery bonus to the municipalities of Tabuaço and S João da Pesqueira, on a *pro rata* basis, depending on the surface area of the mining license included on each municipality.

### **Santo António (Penedono) Property [Gold]**

On June 29, 2012, the Company and Contécnica Consultoria Técnica, Lda. ["Contécnica"], an unrelated entity applied jointly for the Santo António Experimental Mining License. On February 20, 2013, the Company Contécnica was granted the Santo António Experimental Mining License covering a total area of 35.34km<sup>2</sup> in which the latter will be the operator. As of December 31, 2014, the Company held 66.4% and Contécnica held 33.6% of the San Antonio Experimental Mining License (December 31, 2013: the Company held 93% and Contécnica held 7% of the San Antonio Experimental Mining License)

### **Contractual Obligations**

The initial term of the new Santo António Experimental Mining License is for a period of four years from February 20, 2013 to February 20, 2017. The term may be extended for an additional period of two years from February 20, 2017 to February 20, 2019.

During the initial term of the Santo António Experimental Mining License the Company is obliged to incur prospecting and exploration expenditures of not less than €3,000,000 [\$4,200,000].

The Company lodged a bank guarantee in favor of the Government of Portugal for the amount of €75,000 [\$105,000] in respect of the Santo António Experimental Mining License which has been recorded as deposits on the consolidated statements of financial position as at December 31, 2014 [2013: €75,000 [\$109,913]].

The property area held by the Company is 35.34km<sup>2</sup>. Upon expiry of the initial term, the Company will not be required to relinquish any portion of the area covered by the Experimental Mining License if it is successful in receiving an extension of two years. The Company will be obligated to pay to the Government of Portugal an annual license fee of €12,000 [\$16,800] for the ground covered by its Experimental Mining license.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

At any time during the initial term of the Experimental Mining License and the two year extension, the Company may apply for an exploitation license, which if granted, shall have a term of 30 years and which may be extended two times with the approval of the Portuguese Government, for a period not exceeding 10 years each.

Under certain terms and conditions, the Company is obligated to pay Rio Narcea Portugal [the seller of the Penedono concession] a 1% NSR for a maximum amount of US\$1,000,000 [\$1,400,000] as defined.

Upon the granting of an exploitation license, and in the event that mining activities are to take place, the Company will be obligated to pay a 2% to 4% NSR on production depending on the price of gold, as defined.

### **Boa Fé Project [Gold]**

The Company, through its subsidiary Aurmont, holds a 100% interest of the Boa Fé project, which has an area of 46.78km<sup>2</sup> and is located in south central Portugal.

### **Contractual Obligations**

The initial term of the Boa Fé Experimental Mining License is for a period of three years, from November 2, 2011 to November 1, 2014. The term has been extended for an additional six months to May 1, 2015.

The Company lodged a bank guarantee in favor of the Government of Portugal, for the amount of €300,000 [\$420,000] in respect to the Boa-Fé Experimental Mining License which has been recorded as deposits on the consolidated statements of financial position as at December 31, 2014 [2013: €150,000 [\$219,825]].

During the initial term of the Boa Fé Experimental Mining License the Company is obliged to incur prospecting and exploration expenditures of not less than €3,000,000 [\$4,200,000]. During the extended term, the Company is required to incur prospecting and exploration expenditures of approximately €500,000 [\$700,000].

The six month extension had no impact on the acreage that the Company holds and the Company still holds an area of 46.78km<sup>2</sup>.

Before the end of the six month extension, the Company will apply for an exploitation license, which if granted, shall have a term of 10 years and which may be extended with the approval of the Portuguese Government, for two periods not exceeding 5 years each.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

Upon the granting of an exploitation license, and in the event that mining activities are to take place, the Company shall be obligated, at the Portuguese Government's sole discretion, either to pay 10% to 20% of net profits based on a sliding scale, as defined, depending on the price of gold or, alternatively, pay a 4% net smelter return ["NSR"] royalty on production, as defined. The Company will only be required to pay 10% to 20% of net profits based on a sliding scale once all capital and exploration expenditures incurred on the project have been fully recovered.

Based on its analysis of the estimated recoverable amount as of December 31, 2014, the Company recorded an impairment of \$4,000,000 in respect of the Boa Fé property.

### **Montemor-o-Novo Property [Gold]**

The Company, through its subsidiary Aurmont, holds a 100% interest in the Montemor-o-Novo property which has an area of 363.62 km<sup>2</sup> which completely surrounds the Boa Fé property. The property is located in south central Portugal.

#### **Contractual Obligations**

The initial term of the Montemor-o-Novo Concession and Exploration License is for a period of three years, from November 2, 2011 to November 1, 2014. This initial term may be extended twice on an annual basis. Before the end of the initial term, the Company required a one year extension and the correspondent surface area reduction to 363.62 km<sup>2</sup>, which was granted.

The Company lodged a bank guarantee in favor of the Government of Portugal, for the amount of €50,000 [\$70,000] in respect to this Montemor-o-Novo Property which has been recorded as deposits in the consolidated statements of financial position as at December 31, 2014 [2013: €25,000 [\$36,638]].

During the first extended term, the Company is required to incur prospecting and exploration expenditures of not less than €300,000 [\$420,000] and will be required to incur prospecting and exploration expenditures of not less than €300,000 [\$420,000] during the second extended term.

The original property area was 728.22 km<sup>2</sup>. Upon expiry of the initial term, the Company was required to relinquish 50% of the area covered by the Montemor-o-Novo Exploration License to 363.62 km<sup>2</sup>. At the end of the first extended term, the Company will be required to relinquish a further 50% of the area covered by the Exploration License [+/-181.81 km<sup>2</sup>].

The Company is obligated to pay to the Government of Portugal an annual license fee in the amount of €25 per sq. km of ground covered by its license.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

Upon the granting of an exploitation license, and in the event that mining activities are to take place, the Company shall be obligated, at the Portuguese Government's sole discretion, either to pay a 10% to 20% of the net profit derived from its mining activities as defined, or, alternatively, pay a 3% NSR on production, depending on the price of gold, as defined. Also refer Note 4 for significant judgment regarding impairment.

Based on its analysis of the results of expenditures as of December 31, 2014, the Company recorded an impairment on the entire carrying value of \$1,820,067 for the Montemor property.

### **Moimenta-Almendra Property [Tungsten and Gold]**

The second extended term of the exploration license for Moimenta-Almendra expired September 30, 2013 and the entire carrying amount in exploration and evaluation assets of \$441,519 was written off and the Company returned the whole area to the Government of Portugal.

### **Cedovim Property [Gold]**

The Company, through Eurocolt, holds a 100% interest in the Cedovim property, which had an area of 218.13 km<sup>2</sup> located in north central Portugal which is partially contiguous to the Penedono, Moimenta Almendra property and Armamar-Meda Exploration concessions.

#### **Contractual Obligations**

The initial term of the Cedovim Exploration License is for a period three years from November 2, 2011 to November 1, 2014. The Company did not renew the license and as at December 31, 2014 has recorded an impairment on the entire carrying value of \$55,545.

### **Cercal Property [Gold]**

The Company holds a 100% interest in the Cercal property, which has an area of 455.19 km<sup>2</sup>. The property is located in southern Portugal.

#### **Contractual obligations**

The initial term of the new Cercal Exploration License is for a period of three years from February 20, 2013 to February 20, 2016. The term may be extended twice, for an additional period of one year each to February 20, 2018.

The Company lodged a bank guarantee in favor of the Government of Portugal, for the amount of €20,000 [\$28,000] in respect to this Cercal Property. The related bank deposit amounts to €10,000 [\$14,000] and has been recorded as deposit in the consolidated statements of financial position as at December 31, 2014 [2013: €10,000 [\$14,655]].

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

During the initial term, the Company is obligated to incur prospecting and exploration expenditures of not less than €50,000 [\$73,275] by February 19, 2014, €75,000 [\$105,000] by February 19, 2015 and €75,000 [\$105,000] by February 19, 2016. During the first extended term, the Company is required to incur prospecting and exploration expenditures of not less than €100,000 [\$140,380] and will be required to incur prospecting and exploration expenditures of not less than €100,000 [\$140,380] during the second extended term.

The original property area is 455.19 km<sup>2</sup>. Upon expiry of the Initial Term, the Company will be required to relinquish 50% of the area covered by the Cercal Exploration License [+/- 227.54 km<sup>2</sup>]. At the end of the first extended term, the Company will be required to relinquish a further 50% of the area covered by the Cercal Exploration License [+/- 113.77 km<sup>2</sup>].

The Company will be obligated to pay to the government of Portugal an annual license fee in the amount of €20 per sq. km for the area covered by its license.

At any time during the Initial and extended terms, the Company may apply for an exploitation license, which if granted, shall have a term of 30 years and which may be extended two times with the approval of the Portuguese Government, for a period not exceeding 20 years each.

Based on its analysis of the results of expenditures of December 31, 2014, the Company recorded an impairment on the entire carrying value of \$217,055 for the Cercal property.

### **Borba Property [Gold]**

The Company holds a 100% interest in the Borba property which has an approximate area of 633.935 km<sup>2</sup> located in central Portugal.

#### **Contractual obligations**

The initial term of the new Borba Exploration License is for a period of three years from February 20, 2013 to February 20, 2016. The term may be extended twice, for an additional period of one year each to February 20, 2018.

The Company lodged a bank guarantee in favor of the Government of Portugal, for the amount of €19,000 [\$26,000] with respect to the Borba Property. The related bank deposit amounts to €9,500 [\$13,300] and has been recorded in the annual consolidated statements of financial position as at December 31, 2014 [2013: €9,500 [\$13,922]].

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

During the initial term, the Company is obligated to incur prospecting and exploration expenditures of not less than €60,000 [\$84,000] by February 19, 2014, €60,000 [\$84,000] by February 19, 2015 and €70,000 [\$98,000] by February 19, 2016. During the first extended term, the Company is required to incur prospecting and exploration expenditures of not less than €80,000 [\$112,000] and will be required to incur prospecting and exploration expenditures of not less than €80,000 [\$112,000] during the second extended term.

Upon expiry of the initial term, the Company will be required to relinquish 50% of the area covered by the Borba Exploration License [316.96 km<sup>2</sup>]. At the end of the first extended term, the Company will be required to relinquish a further 50% of the area covered by the Borba Exploration License [158.48 km<sup>2</sup>]. The Company will be obligated to pay to the Government of Portugal an annual license fee in the amount of €10 per sq. km of ground covered by its license.

At any time during the initial and extended terms, the Company may apply for an exploitation license, which if granted, shall have a term of 30 years and which may be extended two times with the approval of the Portuguese Government, for a period not exceeding 20 years each.

During 2013, the Company entered into an agreement with privately owned Star Mining Limited ("Star Mining"), an unrelated entity, establishing the key terms for the definitive agreement on the Borba License. No further progress was made and the agreement was terminated during 2014.

Based on the results of expenditures of December 31, 2014, the Company recorded an impairment on the entire carrying value of \$105,679 for the Borba property.

As at December 31, 2014, the Company is in compliance with all its contractual obligations for all the properties.

### 15. GOODWILL

	Net \$
As at December 31, 2012	728,453
Foreign currency translation adjustment	85,351
As at December 31, 2013	813,804
Foreign currency translation adjustment	(34,262)
<b>As at December 31, 2014</b>	<b>779,542</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### 16. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

	2014	2013
	\$	\$
Trade payables	968,531	1,353,526
Accrued liabilities	499,774	869,874
Employees and social institutions	115,820	241,295
Related parties	688,756	84,456
Other payables	253,353	263,280
	<b>2,526,234</b>	<b>2,812,431</b>

Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

### 17. SENIOR SECURED NOTES AND PREFERRED SHARES

#### Senior Secured Notes 2014

- i) On September 8, 2014, the Company issued one unit at US\$200,000 per unit for gross proceeds of US\$200,000 (\$221,000). This Unit consists of US\$200,000 in principal amount of 10% Senior Secured Notes and common share purchase warrants to purchase up to 444,444 common shares of the Company. The Unit matures on September 7, 2019. Interest is payable on June 30 and December 31 in by way of issuance of the Company's common shares or cash at the holder's option.

The fair value of the Note was estimated using a present value of future cash flows method, applying a discount rate of 20%.

The Warrants entitle their holders to purchase an aggregate of 444,444 common shares at an exercise price of US\$0.45 per Common Share on or before September 7, 2019. The fair value of the warrants recorded as derivative financial liability on the consolidated statements of financial position was estimated using the Black-Scholes option pricing model using the assumptions presented in the table below.

Share price (\$ per share)	\$0.11
Expected risk free interest rate [%]	1.35
Expected volatility [%]	81.3%
Expected life [in years]	5 years
Expected dividends [\$]	Nil
Weighted average fair value per warrant (US\$)	0.04

As at September 8, 2014, the pro-rata relative fair value for the Notes and warrants amounted to \$197,000 and \$24,000 respectively.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### Senior Secured Notes 2013

- ii) On November 1, 2013, the Company had issued 10 units at US\$250,000 per unit for gross proceeds of US\$2,500,000 (\$2,603,750). Each Unit consists of US\$250,000 in principal amount of 10% Senior Secured Notes and common share purchase warrants to purchase up to 555,555 common shares of the Company. The Units mature on November 1, 2018, or earlier if the Company closes a financing equal to or greater than US\$25,000,000. Interest is payable on June 30 and December 31 in by way of issuance of the Company's common shares or cash at the holder's option [note 18].

The fair value of the Notes was estimated using a present value of future cash flows method, applying a discount rate of 20%.

The Warrants entitle their holders to purchase an aggregate of 5,555,550 common shares at an exercise price of US\$0.45 per Common Share on or before November 1, 2018. The fair value of the warrants recorded as derivative financial liability on the consolidated statements of financial position was estimated using the Black-Scholes option pricing model using the assumptions presented in the table below.

Share price (\$ per share)	\$0.42
Expected risk free interest rate [%]	1.53
Expected volatility [%]	139%
Expected life [in years]	5 years
Expected dividends [\$]	Nil
Weighted average fair value per warrant (US\$)	0.365

The share issue cost included \$73,250 in commissions and 111,111 broker warrants entitling the holder to purchase common shares at the price of US\$0.45 per Common Share until November 1, 2016. The fair value of these broker warrants amounted to \$22,713

As at November 1, 2013, the pro-rata relative fair value for the Notes and warrants amounted to \$1,163,747, net of transaction costs of \$40,814 and \$1,399,189 respectively. Transaction cost on the warrants amounted to \$55,149 and was recorded in the consolidated statements of operations.

## Colt Resources Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

#### Convertible Preferred Shares

In connection with the acquisition of QSPA in 2011, the Company issued 5,000,000 convertible preference shares. The 5,000,000 preferred shares are convertible at any time by the holder into 4,385,965 common shares until August 23, 2016, at which time the holder can require the Company to redeem the preferred shares for cash consideration €2,500,000. This instrument has been accounted for as a compound financial instrument. The fair value of the liability portion was estimated using a present value of future cash flows method, applying a discount rate within a range of 4% – 5%, with the difference between the fair value of the instrument and its redemption amount being allocated to the equity component. The redemption amount of €2,500,000 of the preferred shares was secured by a mortgage on QSPA's land and buildings [note 12].

#### 18. INCOME TAXES

A reconciliation of income tax charge applicable to accounting loss before income tax at the weighted average statutory income tax rate to income tax charge at the Company's effective income tax rate is as follows:

	2014	2013
	\$	\$
Loss before income taxes	<b>(8,965,819)</b>	(10,034,689)
Income tax recovery at the combined federal and provincial tax rate 26.9% [2013 – 26.9%]	<b>(2,411,805)</b>	(2,699,326)
Other non-deductible non-taxable expenses or non-taxable revenues	<b>(352,664)</b>	1,197,009
Share issue costs charged to equity	—	—
Permanent differences in Portugal	—	(75,680)
Minimum taxes paid in Portugal	<b>47,497</b>	84,831
Other	<b>107,902</b>	(26,443)
Changes in valuation allowance	<b>2,422,828</b>	1,716,250
Income taxes (recovery)/ expense at an effective income tax rate	<b>(186,242)</b>	196,641

Income taxes are composed of the following on the consolidated statements of operations and comprehensive loss:

	2014	2013
	\$	\$
Current	<b>44,073</b>	84,831
Deferred	<b>(230,315)</b>	111,810
	<b>(186,242)</b>	196,641

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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[All amounts disclosed are in Canadian dollars unless otherwise stated]

The deferred tax assets and liabilities of the Company consist of the following:

	2014 \$	2013 \$
<b>Deferred income tax assets</b>		
Non-capital loss carried forward	8,442,741	7,583,899
Share issue costs	—	405,728
Tax basis amount greater than carrying amount of mineral property rights	1,366,037	—
Other	86,148	90,175
	<u>9,894,926</u>	<u>8,079,802</u>
Valuation allowance	<u>(9,828,357)</u>	<u>(7,405,529)</u>
	<u>66,569</u>	<u>674,273</u>
<b>Deferred income tax liabilities</b>		
Carrying amount greater than tax basis of property, plant and equipment	(370,933)	(617,300)
Carrying amount greater than tax basis of mineral property rights	—	(329,944)
Unrealized foreign exchange and other	(66,569)	(344,329)
	<u>(437,502)</u>	<u>(1,291,573)</u>
Net deferred income tax liabilities	<u>(370,933)</u>	<u>(617,300)</u>

### Tax loss carry-forwards

As at December 31, 2014, the Company had non-capital carry-forwards in the amount of \$22,738,000 [2013: \$21,217,000] which are available to reduce future years' income for Canadian and provincial tax purposes. These non-capital loss carry-forwards expire as follows:

	2014 \$
2025	43,000
2026	66,000
2027	916,000
2028	925,000
2029	837,000
2030	3,536,000
2031	4,472,000
2032	5,288,000
2033	5,201,000
2034	1,454,000
	<u>22,738,000</u>

**Colt Resources Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

	<b>2013</b>
	<u>\$</u>
2014	43,000
2024	26,000
2025	43,000
2026	66,000
2027	916,000
2028	925,000
2029	837,000
2030	3,536,000
2031	4,472,000
2032	5,288,000
2033	5,065,000
	<u>21,217,000</u>

In addition, the Company has investment tax credits as at December 31, 2014 in the amount of \$42,000 [2013: \$42,000] which are available to reduce future taxable income and expire between 2027 and 2030.

The Company has capital losses for income tax purposes as at December 31, 2014 of approximately \$78,000 [2013: \$73,000], which can be carried forward indefinitely.

The Company also has losses from operation of approximately \$ 9,614,000 [2013: \$7,756,000] that may be carried forward to apply against future income for Portuguese tax purposes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### 19. SHAREHOLDERS' EQUITY

#### Authorised

An unlimited number of common or preferred shares without nominal or par value.

#### Issued and outstanding common shares

The common shares issued by the Company are shown in the following table during the year ended December 31, 2014 and 2013:

	Number of shares	\$
As at December 31, 2012	129,571,430	48,353,634
Issuance of common shares [i]	29,140,756	10,472,980
Share issue costs	—	(299,009)
Issuance of shares for options exercised	825,000	407,273
As at December 31, 2013	159,537,186	58,934,878
Issuance of common shares [ii]	13,395,729	1,946,165
Issuance of shares for options exercised [ii]	700,000	300,574
<b>As at December 31, 2014</b>	<b>173,632,915</b>	<b>61,181,617</b>

- i. During the year ended December 31, 2014, the Company issued the following:
  - a. 130,660 common shares at \$0.2988 per share for an amount of \$39,041 to pay interest upto December 31, 2013 to the units holders of senior secured notes issued in 2013.
  - b. 368,193 common shares at \$0.3011 per share for an amount of \$110,863 to settle part of the outstanding accrued liability owed to the Company's former Chief Financial Officer.
  - c. 700,000 options were exercised by the Chief Executive Officer of the Company. The options were exercised in two tranches, on May 13 and May 29, 2014 and share price on the date of exercise was \$0.29 and \$0.26 respectively.
  - d. 10,500,000 units at \$0.21 per unit were issued to Spektra Drilling Canada Inc. ("Spektra") in respect of services. Each unit consisted of one common share and share purchase warrant exercisable at a price of \$0.26 during a period of 24 months from the date of August 6, 2014. The fair value of the warrants amounted to \$785,000 using the Black-Scholes option pricing model with the following assumptions: volatility – 82.48%, risk free interest rate – 1.09%, expected life of 2 years and expected dividend yield of nil%. The residual amount of \$1,417,647 was recorded as common shares.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

- e. 660,837 common shares at \$0.21 per share in respect of payment for semi-annual interest to Senior Secured Notes for December 31, 2013 and June 30, 2014.
- f. 1,736,039 common shares at \$0.14 per share in respect of shares for debt transaction with certain suppliers and to settle the balance of debt owed to the Company's previous Chief Financial Officer.

These amounts have been excluded from the statements of cash flows.

- ii. During the year ended December 31, 2013, the Company issued the following:
  - a. 8,605,041 common shares at \$0.45 per share for gross proceeds of \$3,872,269 through private placement. As of December 31, 2012, the Company had already received \$2,700,000 subscription receipts corresponding to the issuance of 6,000,000 shares. The share issue costs included \$162,001 in commission and \$50,601 in other costs. In addition, the Company issued 360,000 broker warrants, entitling the holders to purchase one common share at the price of \$0.45 per share up to January 7, 2014. The fair value of the warrants amounted to \$54,986 using the Black Scholes option pricing model with the following assumptions: volatility 70.54%, risk free interest rate 1.13%, expected life of one year and a half and expected dividend yield of nil%.
  - b. 14,285,715 units at \$0.35 per unit for gross proceeds of \$5,000,000 through private placement. Each unit is comprised of one common share and one fourth (1/4) of one Warrant. The share issue cost incurred were \$29,010. Each whole Warrant is-exercisable at a price of \$0.45 during a period of 60 months expiring on July 27, 2018. The fair value of the 3,571,929 warrants issued amounted to \$985,539 using the Black Scholes option pricing model with the following assumptions: volatility 138.5%, risk free interest rate 1.69% expected life of five years and expected dividend yield of nil%.
  - c. 6,250,000 common shares at a price of US\$0.40 per share through a private placement, to be gross proceeds of US\$2,500,000 [\$2,586,250]. The share issue costs incurred were \$2,411.

In connection with the acquisition of QSPA in 2011, the Company issued 5,000,000 common shares. The seller of QSPA was restricted from selling the 5,000,000 common shares of QSPA to a maximum of 1,000,000 common shares annually.

**Colt Resources Inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

**Issued warrants**

A summary of the changes in the Company's share purchase warrants during 2014 and 2013 is as follows:

	Number of warrants and exercisable	Weighted average exercise prices \$	Weighted average years to expiry
As at December 31, 2012	1,226,000	\$0.50	0.33
Issued	111,111	\$0.48	1.84
Issued [broker]	3,571,429	\$0.45	4.56
Exercised	360,000	\$0.45	0.00
Expired	(1,226,000)	\$0.50	0.00
As at December 31, 2013	4,042,540	\$0.45	4.16
Issued	10,500,000	\$0.26	4.56
Expired	(360,000)	\$0.45	0.00
<b>As at December 31, 2014</b>	<b>14,182,540</b>	<b>\$0.35</b>	<b>2.64</b>

In addition there were 5,999,994 [2013: 5,555,550] warrants issued and outstanding as at December 31, 2014 with weighted average exercise price of US\$0.45 per warrant and a weighted average years to expiry of 3.92 [2013: 4.85] years [note 16].

These warrants have been accounted for as derivative financial liability. The fair value of the warrants as at December 31, 2014 was Nil [2013: \$953,136] calculated using Black Scholes option pricing model using the following assumptions:

	<b>2014</b>	<b>2013</b>
Share price (\$ per share)	\$0.20	\$0.34
Expected risk free interest rate [%]	1.09%	1.51
Expected volatility [%]	82.5%	129%
Expected life [in years]	2 years	5 years
Expected dividends [\$]	Nil	Nil
Weighted average fair value per warrant (US\$)	0.075	0.282

The change in fair value of \$ 994,499 [2013: \$464,514] as well as accretion on warrants of \$113,326 [2013: \$18,461] was recorded in the consolidated statement of operations and comprehensive loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### 20. SHARE-BASED COMPENSATION

A summary of the share option transactions during the year ended December 31, 2014 and 2013 is as follows:

	Number of options	Weighted average exercise price \$	Weighted average years to expiry
Outstanding and exercisable as at December 31, 2012	11,800,000	\$0.46	2.59
Granted	(2,600,000)	\$0.54	1.49
Expired/Cancelled	(825,000)	\$0.26	1.04
Outstanding and exercisable as at December 31, 2013	8,375,000	\$0.46	1.76
Expired/Cancelled	(2,100,000)	\$0.29	0.44
Exercised	(700,000)	\$0.25	0.00
<b>Outstanding and exercisable as at December 31, 2014</b>	<b>5,575,000</b>	<b>\$0.50</b>	<b>1.07</b>

The following table summarizes stock options outstanding and exercisable as at December 31, 2014 and 2013:

Expiry Date	Exercise price \$	Number of Options	
		2014	2013
April 8, 2014	\$0.25	—	575,000
November 23, 2014	\$0.25	—	1,475,000
September 2, 2015	\$0.27	<b>2,425,000</b>	2,425,000
November 8, 2015	\$0.56	<b>750,000</b>	1,000,000
June 4, 2016	\$0.73	<b>1,750,000</b>	2,250,000
July 3, 2016	\$0.75	<b>450,000</b>	450,000
September 11, 2017	\$0.55	<b>200,000</b>	200,000
<b>Total options outstanding and exercisable</b>		<b>5,575,000</b>	<b>8,375,000</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### 21. ADMINISTRATIVE EXPENSES BY NATURE

	2014 \$	2013 \$
Management fees and related costs <i>[note 26]</i>	767,574	1,471,952
Professional and consulting fees <i>[note 26]</i>	768,259	1,162,351
Salaries <i>[note 26]</i>	606,370	734,651
	<b>2,142,203</b>	<b>3,368,954</b>
Investor relations and marketing	244,049	1,414,508
Legal expenses	207,495	690,464
Insurance	174,032	217,729
Office expenses	871,938	2,579,387
Listing and transfer agent fees	84,882	121,198
Rent	303,316	331,666
Recovery of expenses <i>[note 8]</i>	(1,736,966)	—
Other	84,635	292,733
<b>Administrative expenses</b>	<b>2,375,584</b>	<b>9,016,639</b>

### 22. SHARE OF LOSS OF AN INVESTMENT IN ASSOCIATE, NET

	2014 \$
Share of losses of an investment in associate <i>[note 8]</i>	(1,769,350)
Dilution gain on issuance of shares by CRME <i>[note 8]</i>	295,352
Gain on partial disposal of investment in associate <i>[note 8]</i>	971,082
	<b>(502,916)</b>

### 23. FINANCE COSTS

	2014 \$	2013 \$
Accretion expense on loan payable	—	45,909
Accretion expense on derivative financial liability – warrants <i>[note 17]</i>	113,326	18,461
Interest expense on Senior Secured Notes <i>[note 17]</i>	15,377	41,909
Accretion expense on Senior Secured Notes <i>[note 17]</i>	407,472	22,301
Accretion expense on convertible preferred shares <i>[note 17]</i>	3,040	131,028
Others	—	55,150
<b>Finance costs</b>	<b>539,215</b>	<b>314,758</b>

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

### **24. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are as follows:

- [i] to safeguard the Company's ability to continue as a going concern such that it can continue in its exploration activities to provide returns to shareholders and benefits to other stakeholders.
- [ii] to secure sufficient cash and cash equivalents to fund the Company's business plans, including the exploration activities required for the development of its mineral property interests.

The Company considers the items included in shareholders' equity in the definition of capital.

The Company's primary uses of capital are to finance the exploration and property development activities required on its mineral properties, market and investor development, capital expenditures and operating losses.

The Company has relied primarily on the equity markets to fund its activities. In order to carry out planned exploration and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company has not used term debt financing and has not paid any dividends.

Management reviews its capital management approach on an ongoing basis. The Company is not subject to externally imposed capital requirements.

The prices of minerals fluctuate widely and are affected by many factors outside of the Company's control. The prices of minerals and future expectation of such prices may have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact on the Company's ability to raise equity financing for its capital requirements.

### **25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

#### **Fair values**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations [Level 1], without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques [Level 2]. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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Other techniques [Level 3] use inputs not based on observable market data. There was no transfer between Level 1, Level 2 and Level 3 during the year.

The Company's financial instruments consist of receivables, deposits, bank overdraft, accounts payables and accrued liabilities, derivative financial liabilities – warrants, and convertible preferred shares.

The fair values of the convertible preferred shares and Senior Secured Notes are determined using the discounted cash flow method using discount rate that reflects rates currently available for debt on similar terms, considering the Company's credit risk and remaining maturity (Level 2).

The fair value of warrants is evaluated using the Black-Scholes pricing model at year end (Level 2).

Below is a comparison of the carrying amount of the financial instruments recorded at amortized cost and their respective fair values as at December 31:

	<b>2014</b>		<b>2013</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
	\$	\$	\$	\$
Convertible Preferred Shares	3,264,520	3,253,000	3,261,481	3,298,078
Senior Secured Notes	1,639,399	2,264,722	1,211,355	1,863,796
Derivative financial liabilities -Warrants	Nil	222,222	953,136	1,565,650

### **Financial risks**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk [currency fluctuations, interest rates and other price risk]. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

### **Credit risk**

The Company is exposed to credit risk with respect to cash, deposits and trade and other receivables. The risk arises from the non-performance of counterparties of contractual financial obligations. The Company manages credit risk by maintaining cash and cash equivalents and deposits in highly liquid investments with major financial institutions in Canada and Portugal. The Company's commodity taxes receivables are not subject to significant credit risk.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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[All amounts disclosed are in Canadian dollars unless otherwise stated]

The maximum exposure to credit risk as at:

	<b>2014</b>	<b>2013</b>
	\$	\$
Cash	<b>159,873</b>	2,263,613
Accounts receivable	<b>46,221</b>	666,544
Deposits [held in Portugal]	<b>558,401</b>	598,023
	<b>764,495</b>	3,528,180

### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows used in operations and exploration activities, anticipated from investing and financing activities, and taking into account the Company's holdings of cash and cash equivalents.

As at December 31, 2014, the Company has cash of \$159,873 [2013:\$2,263,613]. Trade and other payables have contractual maturities of 30 – 60 days or less and are subject to normal trade terms, amounts due to related parties are due on demand.

The Company's ability to continue as a going concern is also dependent on being able to obtain the necessary financing to satisfy its liabilities as they become due. While the Company has been successful in raising debt and equity funds in the past, there is always a degree of risk on whether or not it will be able to raise sufficient funds in the future.

### **Currency risk**

The Company raises its capital in Canadian dollars and holds its cash mainly in Canadian dollars and Euros. The Company and its subsidiaries minimize their exposure to foreign currency risk by minimizing the amount of funds in currencies other than the functional currencies. The Company continuously monitors its exposure to foreign exchange risk to determine if any mitigation strategies warrant consideration.

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[All amounts disclosed are in Canadian dollars unless otherwise stated]

As at December 31, 2014 and 2013, the Company was exposed to currency risk on the cash balance of US\$ Nil [2013: US\$1,600,000] and the following net financial assets held in Portugal denominated in Euros:

	2014 \$	2013 \$
Net financial (liabilities)/ assets	<b>(2,227)</b>	16,846

### Financial risk associated to agriculture

The Company is exposed to financial risks arising from its vineyard activities. The Company takes reasonable measures to ensure that the current year's harvest is not affected by disease or other climate effects that may have a negative effect upon yield and quality. These measures include involvement of viticulture technicians and continuous focus on development of every plantation.

## 26. RELATED PARTY TRANSACTIONS

In addition to the related party transactions described elsewhere, following were the related party transactions for the years ended 2014 and 2013:

Year ended December 31	2014 \$	2013 \$
Management fees and related costs	<b>729,512</b>	1,071,952
Professional and consulting fees	<b>351,533</b>	363,618
Salaries	<b>28,846</b>	12,500
Short-term benefits	<b>90,130</b>	302,712
Termination	<b>—</b>	400,000
Director fees	<b>80,272</b>	51,103
	<b>1,280,093</b>	2,201,885

On November 1, 2013, the former Executive Chairman of the Board of Directors subscribed for eight units of the Senior Secured Notes for US\$ 2,000,000 of the Company's secured senior notes financing in principal amount of notes and warrants to purchase 4,444,440 common shares of the Company [note 17].

As at December 31, 2014, \$688,756 owed to related parties [2013 – \$417,308] is included in accounts payable and accrued liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2014 and 2013

[All amounts disclosed are in Canadian dollars unless otherwise stated]

**27. SEGMENTED INFORMATION**

The Company operates in one reportable segment, being the acquisition and exploration of mineral property interests and in two geographical areas, Canada and Portugal. The capital assets (including mineral properties) and total assets identifiable with these geographic areas are as follows:

<b>Total Assets</b>	<b>2014</b>	<b>2013</b>
	\$	\$
Canada	<b>771,011</b>	3,329,832
Portugal	<b>32,357,105</b>	38,183,937
	<b>33,128,116</b>	41,513,769

  

<b>Non-current Assets</b>	<b>2014</b>	<b>2013</b>
	\$	\$
Canada	<b>545,565</b>	755,635
Portugal	<b>29,104,420</b>	33,932,435
	<b>29,649,985</b>	34,688,070

**28. COMMITMENTS**

The Company's mining and exploration activities are subject to various federal, provincial and local laws and regulations governing the protection of the environment as well as obtaining permits necessary for the Company's operations. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes that it conducts its operations so as to protect public health and the environment, and its operations are materially in compliance with all applicable laws and regulations and therefore it will be granted the required permits. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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[All amounts disclosed are in Canadian dollars unless otherwise stated]

### **29. SUBSEQUENT EVENTS**

On February 9, 2015 the Company announced that it has signed a binding letter of intent (the "LOI") for its Boa Fé and Montemor gold exploration concession located in Portugal, setting out the terms of an exclusive proposed earn-in arrangement with DSM Resources Corp ("DSM"), a private and unrelated mineral exploration company. Under the terms of the LOI, DSM can earn up to a 100% interest, in three phases. In Phase I, DSM will commit to drill a total of 16,500 metres, commit to spend a total of €550,000 in non-drilling overheads and return for cancellation 4,000,000 shares of the Company to earn in 51%. In Phase II, DSM will commit to drill a total of 7,000 metres, commit to spend a total of €900,000 in non-drilling overheads and will return for cancellation of 3,000,000 shares of the Company to earn in the additional 24%. The Company will commit to assigning the additional 25% to DSM (at the option of DSM) subject to the completion of an updated National Instrument 43-101 resource estimate for the Boa Fé Montemor property for which the Company will receive USD\$40 per ounce for 25% of the revised measured and indicated resources and USD\$10 per ounce for the revised inferred resources.

On March 6, 2015, the Company announced that it completed a second and final closing on its current private placement. Pursuant to this final closing, the Company issued a total of 20,000,000 Units for gross proceeds of \$2,000,000. Each Unit comprised of one common share at \$0.10 per share and one-half of a warrant. Each whole warrant is exercisable at a price of \$0.15 during a period of 36 months from the date of closing. The Company paid finders' fee of \$88,520 in cash equal to 8% on a portion of the gross proceeds raised from applicable subscriptions in the private placement. In addition, the Company granted finders' warrants equal to 8% of the number of units issued and sold on this same portion of the applicable subscriptions.

On April 6, 2015, the Company subscribed for 2,000,000 shares in CRME at a price of \$0.20 per share for an investment of \$400,000. As a result of this investment, the Company's share in CRME increased to 15.76%.