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*Consolidated Financial Statements of*

**NORTHERN VERTEX MINING CORP.**

**For the years ended June 30, 2014 and 2013**

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## Management's Responsibility

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To the Shareholders of Northern Vertex Mining Corp.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards ("IFRS"). This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and the Audit Committee is composed primarily of Directors who are neither management nor employees of Northern Vertex Mining Corp. ("Northern Vertex"). The Board is responsible for overseeing management in the performance of its financial reporting responsibilities and for approving the financial statements. The Audit Committee has the responsibility of meeting with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of Northern Vertex's external auditors.

We draw attention to Note 1 in the consolidated financial statements, which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

"J.R.H. (Dick) Whittington"  
J.R.H. (Dick) Whittington  
Chief Executive Officer

"Ed J. Duda"  
Ed J. Duda  
Chief Financial Officer

October 21, 2014

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Northern Vertex Mining Corp.

We have audited the accompanying consolidated financial statements of Northern Vertex Mining Corp., which comprise the consolidated statement of financial position as at June 30, 2014 and 2013, and the consolidated statements of operation and loss, comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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

We believe that the audit evidence we have obtained 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 Northern Vertex Mining Corp. as at June 30, 2014 and 2013, and the results of 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 1 of these consolidated financial statements, which states that Northern Vertex Mining Corp. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of Northern Vertex Mining Corp. to continue as a going concern.

Vancouver, BC  
October 21, 2014

  
Chartered Accountants

# NORTHERN VERTEX MINING CORP.

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# NORTHERN VERTEX MINING CORP. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars  
(Exhibit 1)

|  | June 30,<br>2014     | June 30,<br>2013 |
|--|----------------------|------------------|
| <b>ASSETS</b>  |                      |                  |
| <b>Current assets</b>                                      |                      |                  |
| Cash and cash equivalents (Note 13a)                       | \$ 4,052,812         | \$ 7,772,612     |
| Trade and other receivables (Note 5)                       | 136,180              | 59,498           |
| Prepaid expenses and deposits                              | 72,026               | 229,114          |
| <b>Total current assets</b>                                | <b>4,261,018</b>     | 8,061,224        |
| <b>Non-current assets</b>                                  |                      |                  |
| Reclamation deposits (Note 6)                              | 776,240              | 765,230          |
| Property, plant and equipment (Note 7)                     | 1,232,351            | 340,168          |
| Exploration and evaluation assets (Note 9)                 | 16,655,641           | 11,915,070       |
| Intangible assets (Note 10)                                | 111,472              | 122,000          |
| <b>Total assets</b>  | <b>\$ 23,036,722</b> | \$ 21,203,692    |
| <b>LIABILITIES</b>   |                      |                  |
| <b>Current liabilities</b>                                 |                      |                  |
| Trade and other payables (Note 11)                         | \$ 1,163,497         | \$ 2,341,239     |
|  | <b>1,163,497</b>     | 2,341,239        |
| <b>Non-current liabilities</b>                             |                      |                  |
| Provision for reclamation and remediation (Note 12)        | 782,761              | 417,537          |
| <b>Total liabilities</b>                                   | <b>\$ 1,946,258</b>  | \$ 2,758,776     |
| <b>SHAREHOLDERS' EQUITY</b>                                |                      |                  |
| Share capital (Exhibit 4 and Note 13)                      | 19,354,771           | 17,767,414       |
| Subscriptions received in advance (Exhibit 4 and Note 13a) | 2,355,000            | -                |
| Contributed surplus (Exhibit 4 and Note 13)                | 14,487,236           | 11,489,992       |
| Accumulated other comprehensive loss (Exhibit 4)           | (154,115)            | (26,700)         |
| Deficit  | (14,952,428)         | (10,785,790)     |
| <b>Total shareholders' equity</b>                          | <b>21,090,464</b>    | 18,444,916       |
| <b>Total liabilities and shareholders' equity</b>          | <b>\$ 23,036,722</b> | \$ 21,203,692    |

Nature of operations and going concern (Note 1)  
Commitments (Note 18)  
Subsequent events (Note 22)

Approved and authorized on behalf of the Board:

"Kenneth Berry"  
Director

"David Farrell"  
Director

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

# NORTHERN VERTEX MINING CORP.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND LOSS

Expressed in Canadian Dollars  
(Exhibit 2)

|   | For the year ended June 30, |                      |
|---|-----------------------------|----------------------|
|   | 2014                        | 2013                 |
| <b>Administrative expenses</b>  |                             |                      |
| Bad debt expense  | \$ -                        | \$ 9,598             |
| Depreciation and amortization   | 51,228                      | 17,179               |
| Management fees   | 156,139                     | 151,923              |
| Marketing and community relations   | 325,410                     | 191,523              |
| Office and miscellaneous  | 245,425                     | 214,656              |
| Professional fees   | 506,265                     | 238,149              |
| Property fees   | 298,105                     | 205,103              |
| Rent  | 74,231                      | 24,668               |
| Salaries, wages, benefits and subcontractor expenses                          | 1,270,602                   | 865,571              |
| Share-based payments (Note 13c)   | 1,391,262                   | 2,329,489            |
| Transfer agent and filing fees  | 61,208                      | 56,877               |
| Tax on net proceeds from gold and silver sales                                | 32,581                      | -                    |
| Travel, meetings and conferences  | 234,906                     | 458,968              |
| <b>Loss before other expenses</b>   | <b>4,647,362</b>            | <b>4,763,704</b>     |
| <b>Other expenses (income)</b>  |                             |                      |
| Foreign exchange (gain) (Note 14)   | (410,069)                   | (324,036)            |
| Impairment of exploration and evaluation assets (Note 9)                      | -                           | 893,150              |
| Interest and other income   | (24,035)                    | (137,135)            |
| Loss on sale of investment in joint venture interest (Note 8)                 | -                           | 2,723,322            |
| Deferred cash payment received on the sale of joint venture interest (Note 8) | (58,650)                    | -                    |
| Loss on sale of property, plant and equipment                                 | 12,030                      | -                    |
|   | <b>(480,724)</b>            | <b>3,155,301</b>     |
| <b>Net loss for the year</b>  | <b>4,166,638</b>            | <b>7,919,005</b>     |
| <b>Deficit, beginning of the year</b>   | <b>10,785,790</b>           | <b>2,866,785</b>     |
| <b>Deficit, end of the year</b>   | <b>\$ 14,952,428</b>        | <b>\$ 10,785,790</b> |
| <b>Basic and diluted loss per share</b>                                       | <b>\$ (0.074)</b>           | <b>\$ (0.160)</b>    |
| <b>Weighted average number of shares outstanding</b>                          | <b>56,554,055</b>           | <b>49,501,003</b>    |

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

# NORTHERN VERTEX MINING CORP. CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Expressed in Canadian Dollars  
(Exhibit 3)

|   | <u>For the year ended June 30,</u> |                |
|---|------------------------------------|----------------|
|   | <u>2014</u>                        | <u>2013</u>    |
| <b>Net loss for the year</b>  | <b>\$ (4,166,638)</b>              | \$ (7,919,005) |
| <b>Items which may be reclassified subsequently to profit or (loss)</b>   |                                    |                |
| Unrealized foreign currency translation differences of foreign operations | <b>(127,415)</b>                   | (128,352)      |
| <b>Comprehensive loss for the year</b>                                    | <b>\$ (4,294,053)</b>              | \$ (8,047,357) |

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

**NORTHERN VERTEX MINING CORP.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Expressed in Canadian Dollars  
(Exhibit 4)

|  | Number of<br>Shares | Share Capital        | Subscriptions<br>Received in<br>Advance | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Deficit                | Total Equity         |
|--|---------------------|----------------------|---|------------------------|--|------------------------|----------------------|
| Balance, June 30, 2012   | 45,019,348          | \$ 11,196,258        | \$ -                                    | \$ 6,936,538           | \$ 101,652   | \$ (2,866,785)         | \$ 15,367,663        |
| Shares issued for cash, net of issuance costs                  | 7,319,000           | 6,568,600            | -                                       | 1,955,271              | -  | -                      | 8,523,871            |
| Shares issued for exploration and evaluation asset             | 200,000             | 260,000              | -                                       | -                      | -  | -                      | 260,000              |
| Exercise of stock options                                      | 25,000              | 21,525               | -                                       | (10,275)               | -  | -                      | 11,250               |
| Warrant expiration date amendment                              | -                   | (278,969)            | -                                       | 278,969                | -  | -                      | -                    |
| Share based payments   | -                   | -                    | -                                       | 2,329,489              | -  | -                      | 2,329,489            |
| Foreign currency translation differences of foreign operations | -                   | -                    | -                                       | -                      | (128,352)  | -                      | (128,352)            |
| Net loss for the year  | -                   | -                    | -                                       | -                      | -  | (7,919,005)            | (7,919,005)          |
| <b>Balance, June 30, 2013</b>                                  | <b>52,563,348</b>   | <b>\$ 17,767,414</b> | <b>\$ -</b>                             | <b>\$ 11,489,992</b>   | <b>\$ (26,700)</b>                                     | <b>\$ (10,785,790)</b> | <b>\$ 18,444,916</b> |
| Shares issued for cash, net of issuance costs                  | 5,236,000           | 2,493,339            | -                                       | 675,662                | -  | -                      | 3,169,001            |
| Shares issued for exploration and evaluation asset             | 100,000             | 32,000               | -                                       | -                      | -  | -                      | 32,000               |
| Subscriptions received in advance (Note 13a)                   | -                   | -                    | 2,355,000                               | -                      | -  | -                      | 2,355,000            |
| Share issuance costs paid in advance                           | -                   | (7,662)              | -                                       | -                      | -  | -                      | (7,662)              |
| Warrant expiration date amendment                              | -                   | (930,320)            | -                                       | 930,320                | -  | -                      | -                    |
| Share based payments   | -                   | -                    | -                                       | 1,391,262              | -  | -                      | 1,391,262            |
| Foreign currency translation differences of foreign operations | -                   | -                    | -                                       | -                      | (127,415)  | -                      | (127,415)            |
| Net loss for the year  | -                   | -                    | -                                       | -                      | -  | (4,166,638)            | (4,166,638)          |
| <b>Balance, June 30, 2014</b>                                  | <b>57,899,348</b>   | <b>\$ 19,354,771</b> | <b>\$ 2,355,000</b>                     | <b>\$ 14,487,236</b>   | <b>\$ (154,115)</b>                                    | <b>\$ (14,952,428)</b> | <b>\$ 21,090,464</b> |

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



# NORTHERN VERTEX MINING CORP. CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in Canadian Dollars  
(Exhibit 5)

|   | For the year ended June 30, |                       |
|---|-----------------------------|-----------------------|
|   | 2014                        | 2013                  |
| <b>Cash flows from operating activities</b>                                 |                             |                       |
| Net loss for the year   | \$ (4,166,638)              | \$ (7,919,005)        |
| Items not affecting cash:   |                             |                       |
| Share-based payments (Note 13c)   | 1,391,262                   | 2,329,489             |
| Depreciation and amortization   | 51,228                      | 17,179                |
| Loss on disposal of property, plant and equipment                           | 11,669                      | -                     |
| Loss on sale of investment in joint venture (Note 8)                        | -                           | 2,723,322             |
| Impairment of exploration and evaluation assets (Note 9)                    | -                           | 893,150               |
| Bad debt expense  | -                           | 9,598                 |
| Unrealized foreign exchange (gain)  | -                           | (500,286)             |
| Changes in non-cash working capital balances:                               |                             |                       |
| Trade and other receivables   | (76,979)                    | 202,078               |
| Prepaid expenses and deposits   | 159,035                     | (149,691)             |
| Trade and other payables  | 713,016                     | 273,390               |
| <b>Cash used in operating activities</b>                                    | <b>\$ (1,917,407)</b>       | <b>\$ (2,120,776)</b> |
| <b>Cash flows from financing activities</b>                                 |                             |                       |
| Proceeds from issuance of share capital, net of issuance costs              | \$ 3,169,001                | \$ 8,523,871          |
| Subscriptions received in advance (Note 13a)                                | 2,355,000                   | -                     |
| Proceeds from exercise of options   | -                           | 11,250                |
| <b>Cash provided by financing activities</b>                                | <b>\$ 5,524,001</b>         | <b>\$ 8,535,121</b>   |
| <b>Cash flows from investing activities</b>                                 |                             |                       |
| Exploration and evaluation expenditures                                     | \$ (10,634,074)             | \$ (4,829,615)        |
| Exploration and evaluation proceeds   | 4,855,485                   | -                     |
| Purchase of reclamation bonds   | -                           | (737,621)             |
| Purchase of property, plant and equipment                                   | (1,287,943)                 | (341,533)             |
| Proceeds from sale of property, plant and equipment                         | 52,167                      | -                     |
| Purchase of intangible assets   | (48,010)                    | (118,419)             |
| Proceeds from sale of interest in joint venture (Note 8)                    | -                           | 4,759,817             |
| Proceeds from deferred cash payments (Note 8)                               | 7,767                       | -                     |
| <b>Cash used in investing activities</b>                                    | <b>\$ (7,054,608)</b>       | <b>\$ (1,267,371)</b> |
| <b>Effect of foreign exchange rate changes on cash and cash equivalents</b> | <b>(271,786)</b>            | <b>212,123</b>        |
| <b>(Decrease) Increase in cash and cash equivalents during the year</b>     | <b>(3,719,800)</b>          | <b>5,359,097</b>      |
| <b>Cash and cash equivalents, beginning of the year</b>                     | <b>7,772,612</b>            | <b>2,413,515</b>      |
| <b>Cash and cash equivalents, end of the year</b>                           | <b>\$ 4,052,812</b>         | <b>\$ 7,772,612</b>   |
| <b>Cash and cash equivalents consists of:</b>                               |                             |                       |
| Cash on deposit   | 4,052,812                   | 7,772,612             |
|   | <b>\$ 4,052,812</b>         | <b>\$ 7,772,612</b>   |

Supplemental disclosure of non-cash activities (Note 16)  
Subsequent events (Note 22)

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

**NORTHERN VERTEX MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)

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**1 Nature of operations and going concern**

*Nature of operations*

Northern Vertex Mining Corp. (the "Company") is a resident Canadian mineral exploration and development company incorporated under the Business Corporations Act (British Columbia). The address of the Company's registered office is Suite 1820 – 1055 West Hastings St. Vancouver, British Columbia, Canada.

The Company's principal business is to acquire, explore and develop mineral properties principally located in the United States and Canada with the mandate of identifying mineralized deposits that demonstrate near-term production potential and long-term sustainable growth.

The Company's primary project is the Moss gold-silver deposit (the "Moss Mine") located in Mohave County, Arizona. The Company is focused on advancing Moss Mine pilot plant operations concurrent with completing the terms necessary to earn its interest in the project (Note 9).

*Going concern*

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. There are conditions and events, which constitute material uncertainties that may cast significant doubt on the validity of this assumption.

The Company has experienced operating losses and negative operating cash flows since inception and has no assurances that sufficient financing will be available to continue in operation for the foreseeable future. Ongoing operations are dependent on the Company's ability to: obtain public equity financing by the issuance of share capital, generate profitable operations in the future, or secure debt financing.

Phase I - Pilot Plant Operations at the Moss Mine is expected to be completed in the fourth quarter of the 2014 calendar year. During the year-ended June 30, 2014, construction on the pilot plant was completed, leaching had commenced and gold and silver were being produced. As of June 30, 2014, the Company had recorded sales from the pilot plant of US\$4,706,593 (before royalties and selling costs) from 3,516 ounces of gold and 13,847 ounces of silver with an average selling price for gold and silver of US\$1,259.11 and US\$20.21, respectively.

During the year-ended June 30, 2014 and June 30, 2013, the Company was able to raise net proceeds in excess of \$5.5 million and \$8.5 million, respectively, from private placements. To continue development at the Moss Mine, the Company will require additional financing. While the Company has been successful at raising funds in the past, there can be no assurance that it will be able to do so in the future.

These consolidated financial statements do not reflect any adjustments, which may be material, to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

Subsequent to June 30, 2014, the Company completed a non-brokered private placement of 15,042,098 units at a purchase price of \$0.25 per unit for total gross proceeds of \$3,760,525 (see Note 22). Working capital, as at June 30, 2014, was \$3,097,521 and with the remaining monies received subsequent to year-end from the private placement along with the anticipated proceeds from gold and silver sales and the continuation of the hardline cost reduction program instigated by management in the third quarter of fiscal 2014, the Company believes it will have sufficient capital resources to meet its obligations for at least twelve months from the end of the reporting year.

**NORTHERN VERTEX MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended June 30, 2014 and 2013**  
(All dollar amounts expressed in Canadian dollars, unless otherwise noted)

**1 Nature of operations and going concern** (continued)

As of June 30, 2014 and 2013 the Company had the following working capital and deficit balances:

|                 | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|-----------------|--------------------------|------------------|
| Working capital | \$ <b>3,097,521</b>      | \$ 5,719,985     |
| Deficit         | <b>(14,952,428)</b>      | (10,785,790)     |

**2 Basis of preparation**

The consolidated financial statements of the Company for the years ended June 30, 2014 and 2013 have been prepared in accordance with International Financial Reporting Standards and Interpretations (collectively, "IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on October 21, 2014.

**3 Significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all of the years presented in these consolidated financial statements, unless otherwise indicated.

**Basis of consolidation**

*Subsidiaries*

Subsidiaries are all entities over which the Company has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Company, until the date on which control ceases. These consolidated financial statements include the accounts of two wholly-owned subsidiaries, Golden Vertex Corp. and Golden Vertex (Idaho) Corp., both incorporated in the United States. All significant inter-company transactions have been eliminated for consolidation purposes.

*Interest in joint venture*

A joint venture can take the form of a jointly controlled entity, jointly controlled operation, or jointly controlled asset. All joint ventures involve a contractual arrangement which establishes joint control. The Company's financial statements as at June 30, 2012 included the Company's investment in the Lemhi Gold Trust Joint Venture (the "Lemhi JV LLC"), a jointly controlled entity. The Company disposed of its investment in Lemhi JV LLC during the year ended June 30, 2013.

The Company accounted for its investment in the joint venture using the equity method. Under the equity method, the investment is initially recognized at cost in the consolidated statements of financial position and is subsequently adjusted for the Company's proportionate share of the profit or loss and any other changes in the joint venture's net assets.

# NORTHERN VERTEX MINING CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2014 and 2013

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)

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### 3 Significant accounting policies (continued)

#### Foreign currency translation

##### *Functional and presentation currency*

Transactions included in the accounts of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent company and the Company's presentation currency.

##### *Transactions and balances*

Transactions denominated in foreign currencies are translated into the relevant functional currency using the exchange rates prevailing at the dates of the transactions. The functional currency of the Company's subsidiaries is the US dollar. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of operations and loss.

##### *Translation of subsidiary results into the presentation currency*

The operating results and statements of financial position of each of the Company's subsidiaries with functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities presented are translated at the period-end closing rate as at the date of the statements of financial position;
- Income and expenses for the statements of operations and loss are translated at average exchange rates, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences are recognized in a separate component of shareholders' equity as other comprehensive income (loss).

#### Cash and cash equivalents

Cash and cash equivalents at June 30, 2014 and June 30, 2013 consisted entirely of cash on deposit with a Canadian Schedule I financial institution and a US-chartered commercial bank.

#### Property, plant and equipment

Property, plant and equipment is initially recorded at cost at the time of purchase or commissioning of the asset and is subsequently measured at cost less accumulated depreciation and impairment, if applicable. Cost includes all costs required to bring the item into its intended use by the Company.

Costs incurred for major overhaul of existing equipment are capitalized as property, plant and equipment and are subject to depreciation, once commissioning is completed.

# NORTHERN VERTEX MINING CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2014 and 2013

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)

### 3 Significant accounting policies (continued)

#### *Depreciation*

Property, plant and equipment at the Moss Mine is depreciated using the straight-line method over the expected life of the mine, or over the remaining useful life of the asset, if shorter. Property and equipment at the head office is depreciated over the period in which the assets are expected to be available for use. The Company uses the following depreciation rates:

| <b>Major class of asset</b>   | <b>Depreciation rate</b> |
|-------------------------------|--------------------------|
| Building                      | 5 years                  |
| Machinery and plant equipment | 3-5 years                |
| Vehicles                      | 5 years                  |
| Computer equipment            | 3 years                  |
| Leasehold improvements        | Lease term               |
| Furniture and fixtures        | 3-5 years                |

Asset useful life and residual values are reviewed on an annual basis and adjusted, if required, on a prospective basis.

#### **Exploration and evaluation assets**

Exploration and evaluation assets represent properties on which the Company is conducting exploration to determine whether significant mineralization exists or for which the Company has identified a mineral resource of such quantity and grade or quality that it has reasonable prospects for economic extraction. All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on an area of interest are expensed as incurred. Once the legal right to explore has been obtained, exploration expenditures are capitalized in respect of each identifiable area of interest until a technical feasibility study has been completed and the commercial viability of extracting a mineral resource is demonstrable. Proceeds from gold and silver sales, net of royalties, during the exploration and evaluation phase are offset against costs capitalized while production is directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management. Evaluation expenditures include the costs of drilling, sampling and other costs related to defining and delineating the mineral deposit. Exploration and evaluation assets are carried at historical cost, less any impairment, if applicable.

When a technical feasibility study has been completed and commercial viability of extracting a mineral resource is demonstrable for an area of interest, the Company stops capitalizing exploration and evaluation costs for that area, tests for impairment and reclassifies any unimpaired exploration and evaluation assets to property, plant and equipment. Demonstration of commercial viability generally is considered to have occurred with estimated positive future cash flows based on proven and probable reserves, the securing of all necessary legal, governmental, environmental and operational permits and agreements, and the approval by the Board of Directors to proceed with development of a project.

#### **Intangible assets**

Intangible assets consist of computer software and costs of computer software customization and implementation and are stated at cost less accumulated amortization and impairment losses, if applicable. Amortization is recorded on a straight-line basis over 3 years.

**NORTHERN VERTEX MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3 Significant accounting policies** (continued)

**Provision for reclamation and remediation**

The Company's activities are subject to laws and regulations relating to the protection of the environment in the jurisdictions in which exploration, development and mining activities take place. To comply with such laws and regulations, the Company may be required to make expenditures for reclamation and remediation. In certain cases, the Company could also have a constructive obligation to make such expenditures, where a legal obligation did not otherwise exist. The Company recognizes a provision for reclamation and remediation when: the Company has a present legal or constructive obligation as a result of past events, such as an environmental disturbance; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured at the net present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Accretion expense, representing the increase in the provision due to the passage of time during Phase I, is capitalized to exploration and evaluation assets.

Reclamation and remediation provisions include estimates for the costs of restoration activities required under applicable environmental regulations, such as dismantling and demolition of infrastructure, site and land rehabilitation, and security and monitoring. The extent of reclamation and remediation work required is primarily dependent on the prescribed requirements of the applicable environmental authority in the jurisdiction in which the Company's activities take place. Upon initial recognition of the liability, the net present value of the obligation is capitalized as part of the cost of exploration and evaluation assets. Restoration activities will occur primarily upon closure of a mine, but can occur from time to time throughout the life of the mine. As restoration projects are undertaken, their costs are charged against the provision as the costs are incurred.

Reclamation and remediation provisions are reviewed at least quarterly and take into account the effects of inflation and changes in estimates, with any resulting adjustments to the net present value of the provision correspondingly capitalized to exploration and evaluation assets.

**Proceeds Recognition**

Proceeds from gold and silver sales are recognized at market prices when the following conditions have been satisfied:

- the significant risks and rewards of ownership have been transferred to the buyer;
- that economic benefits associated with the transaction will flow to the Company;
- the sales price can be measured reliably;
- the Company has no significant continuing involvement; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

While the Company is in the exploration and evaluation phase, proceeds, net of royalties, are being recorded as cost recoveries against the associated exploration and evaluation assets.

**Impairment**

*Financial assets*

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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**3 Significant accounting policies** (continued)

*Non-financial assets*

The carrying amounts of exploration and evaluation assets are assessed for impairment only when indicators of impairment exist, typically when one of the following circumstances applies:

- Exploration rights have expired or will expire in the near future;
- No future substantive exploration expenditures are budgeted;
- Commercially viable quantities of mineral resources have not been discovered and exploration and evaluation activities will be discontinued; and
- Capitalized expenditures are unlikely to be fully recovered from successful development or sale.

If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (the "cash-generating unit", or "CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statements of operations and loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**Share capital**

Common shares are classified as equity. The Company records proceeds from share issuances net of share issuance costs. Share capital issued for non-monetary consideration is recorded at the fair market value of the shares on the date the shares are issued.

**Earnings (loss) per share**

Basic earnings (loss) per share is calculated by dividing the profit or (loss) attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents. This calculation requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. The treasury stock method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the year. Due to the net loss incurred for the years ended June 30, 2014 and 2013, the effect of outstanding options and warrants has not been calculated as the result would be anti-dilutive.

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**3 Significant accounting policies** (continued)

**Warrants**

Warrants are classified as equity as they are derivatives of the Company's own equity that will be settled only by the Company exchanging a fixed amount of cash for a fixed number of the Company's own equity instruments.

When shares and warrants are issued at the same time, the proceeds are allocated first to warrants issued, according to their fair value using the Black-Scholes pricing model, the residual value being allocated to shares.

**Share-based payments**

The grant date fair value of share-based payment awards granted to employees, consultants, directors and officers is recognized as an expense, with a corresponding increase in contributed surplus, over the period during which the recipient unconditionally becomes entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

**Financial instruments**

The Company classifies financial instruments as either fair value through profit or (loss), loans and receivables, held-to-maturity, available-for-sale, or other financial liabilities. Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Instruments classified as fair value through profit or (loss) are measured at fair value with unrealized gains and losses recognized in the consolidated statements of operations and loss. All financial assets except those measured at fair value through profit or (loss) are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Specific accounting policies and classifications for each of the Company's financial instruments are described below:

*i) Fair value through profit or (loss)*

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as fair value through profit or (loss). Any financial instrument can be designated as fair value through profit or (loss) as long as its fair value can be reliably measured. These instruments are measured at fair value with subsequent changes in fair value included in profit or (loss).

The Company has classified cash and cash equivalents as fair value through profit or (loss), which accordingly are carried at their fair values.



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**3 Significant accounting policies** (continued)

*ii) Held-to-maturity*

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held-to-maturity financial assets and any transaction costs incurred to acquire held-to-maturity financial assets are included in profit or (loss). Currently, the Company has no held-to-maturity financial assets.

*iii) Loans and receivables*

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables and any transaction costs incurred to acquire loans and receivables are included in profit or (loss). The Company classifies trade and other receivables and reclamation deposits as loans and receivables.

*iv) Available-for-sale*

Available-for-sale assets are those financial assets that are not classified as fair value through profit or (loss), held-to-maturity or loans or receivables, and are carried at fair value. Any unrealized gains or losses arising from the change in fair value are recorded within comprehensive income (loss). Available-for-sale assets are written down to fair value through profit or (loss) whenever it is necessary to reflect other-than-temporary impairment. Cumulative gains and losses arising upon the sale of the asset are included in profit or (loss). Any transaction costs incurred to acquire available-for-sale financial assets will be included in profit or (loss). Currently, the Company has no available-for-sale financial assets.

*v) Other financial liabilities*

Other financial liabilities are non-derivative financial liabilities that are not classified as fair value through profit or (loss). Other financial liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method. The Company classifies trade and other payables as other financial liabilities.

**Comprehensive income (loss)**

Comprehensive income (loss) represents the change in net equity due to foreign exchange differences arising from translation of the financial statements of foreign operations to the presentation currency. Cumulative changes in comprehensive income (loss) are included in accumulated other comprehensive income (loss) which is presented as a separate category within shareholders' equity.

**Income taxes**

Income tax expense comprises current and deferred tax. Income tax expense, if applicable, is recognized in the consolidated statements of operations and loss except to the extent it relates to items recognized in comprehensive income (loss).

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**3 Significant accounting policies** (continued)

*Current tax*

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period, adjusted for amendments if any, to tax payable from previous years. 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.

*Deferred tax*

Deferred tax is recorded using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable loss, or on differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

**Adoption of new accounting standards**

The following standards were adopted for the period beginning on July 1, 2013, and had no effect on the Company's consolidated financial statements for the periods presented.

- i) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, 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. IAS 27, *Consolidated and Separate Financial Statements* and IAS 28, *Investments in Associates* were revised and reissued as IAS 27, *Separate Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures* to align with the new consolidation guidance.
- ii) IFRS 11, *Joint Arrangements*, requires an entity to classify its interest in a joint arrangement as either a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, while joint operations will require the entity to recognize its share of the assets, liabilities, revenue and expenses of the joint operation. While the Company does not currently have any joint arrangements, the Company may be subject to such arrangements in the future upon fulfilling the terms to acquire its 70% interest in the Moss Mine.
- iii) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Matters covered include information about the significant judgments and assumptions that any entity has made in determining whether it has control, joint control or significant influence over another entity. The Company may be subject to joint arrangements in the future upon fulfilling the terms to acquire its 70% interest in the Moss Mine.
- iv) IFRS 13, *Fair Value Measurement*, is a comprehensive new standard for fair value measurement and disclosure across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e., an exit price.

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**3 Significant accounting policies** (continued)

- v) IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, sets out principles for the accounting for overburden waste removal (stripping) costs during the production phase of a mine. While the Company is not yet in the commercial production phase, the Company is currently assessing the future impact of this interpretation.

**Future accounting policy changes issued but not yet in effect**

Pronouncements that are not applicable or that do not have a significant impact to the Company have not been included in these consolidated financial statements.

In May 2013, the IASB issued IFRIC 21, *Levies* ("IFRIC 21"), an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the impact of applying IFRIC 21, however it does not expect the implementation of this standard to have a material impact on its consolidated financial statements.

The IASB intends to replace IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9, *Financial Instruments* ("IFRS 9") and to reduce the complexity in the classification and measurement of financial instruments. The completed version of IFRS 9 will include classification and measurement, impairment and hedge accounting requirements and the IASB has tentatively decided that the mandatory effective date of this new standard will be for annual periods beginning on or after January 1, 2018. The Company is currently monitoring the phases of this IASB project with a view to evaluating the impact of the standard when it is issued in its final form, which is expected in calendar 2014.

**4 Significant accounting estimates and judgments**

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying note disclosures. Judgments, estimates and assumptions are continually 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. By their nature, these judgments, estimates and assumptions are subject to uncertainty and the effect on the consolidated financial statements of future periods for changes in such factors could be significant. Actual results may differ from these judgments, estimates and assumptions.

Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to:

- asset carrying values and impairment charges;
- the economic recoverability of exploration expenditures incurred and the probability of future economic benefits from the expenditures;
- the expected costs of reclamation and remediation;
- the calculation of share-based compensation, which includes the assumptions used in the Black-Scholes option pricing model such as volatility, estimated forfeiture rates and expected time until exercise;
- useful life of property, plant and equipment; and
- deferred cash payments.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the amounts recognized in the consolidated financial statements are as follows:

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**4 Significant accounting estimates and judgments** (continued)

i) Exploration and evaluation assets

The Company makes certain estimates and assumptions regarding the recoverability of the carrying values of exploration and evaluation assets. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. The recoverability of the assets' carrying values is dependent upon the determination of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permits to complete development and future profitable production or proceeds from the disposition thereof.

The Company has taken steps to verify title to exploration and evaluation assets in which it has or is in the process of earning an interest, including review of condition of title reports, vesting deeds, mining claim location notices and filings, and property tax and other public records and is not presently aware of any title defects. The procedures the Company has undertaken and may undertake in the future to verify title provide no assurance that the underlying properties are not subject to prior agreements or transfers of which the Company is unaware.

ii) Share-based payments

The Company has an incentive stock option plan for employees, consultants, directors and officers. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The Company also issues share purchase warrants in connection with certain equity financings. The fair value of share options and share purchase warrants is estimated by using the Black-Scholes valuation model on the date of stock option grant or date of warrant issuance based on certain assumptions. Those assumptions are described in Notes 13 (c) and 13 (d) and include, among others, expected volatility, expected life and number expected to vest.

iii) Provision for reclamation and remediation

The amounts recorded for reclamation and remediation provisions are based on a number of factors, including technical reports prepared by third-party specialists for anticipated remediation activities and costs, the expected timing of cash flows, anticipated inflation rates and the pre-tax risk-free interest rate on which the estimated cash flows have been discounted. Actual results could differ from these estimates. The estimates require considerable judgment about the nature, cost and timing of the work to be completed and may change with future changes to costs, environmental laws and regulations and remediation practices.

iv) Useful life of property, plant and equipment

The useful life of property, plant and equipment and intangible assets is based on management estimates at the time of acquisition with information obtained from vendors and engineer guidance, where required. Management estimates may change due to technological developments, market conditions, expectation for replacement of assets and other factors. The Company depreciates assets on a straight-line basis, over the useful life of the asset to the extent that the useful life does not exceed the estimated life of the mine. Estimates of residual values, useful lives and depreciation methods are reviewed periodically by management. Any changes that arise from periodic reviews are accounted for and adjusted prospectively.

v) Receipt of deferred cash payments

The potential proceeds to be received based on exploration expenditures incurred at the Lemhi Gold Property, which are indeterminable.

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**4 Significant accounting estimates and judgments** (continued)

Significant judgments used in the preparation of these consolidated financial statements include, but are not limited to:

- those relating to the assessment of the Company's ability to continue as a going concern;
- the determination of functional currency, as the Canadian dollar for the parent company and the US dollar for the wholly owned subsidiaries; and
- the determination that the test-mining, heap leach processing and gold and silver recovery methods employed during Phase I – Pilot Plant Operations represents a continuation of the Company's exploration and evaluation activities.

**5 Trade and other receivables**

|  | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|--|--------------------------|------------------|
| Trade accounts receivable                | \$ <b>77,803</b>         | \$ 26,788        |
| Value-added taxes receivable             | <b>8,406</b>             | 31,337           |
| Other (Note 8)                           | <b>49,971</b>            | 1,373            |
| <b>Total trade and other receivables</b> | <b>\$ 136,180</b>        | \$ 59,498        |

The Company expects full recovery of trade accounts receivable, accrued receivables and value-added taxes receivable and consequently has not recorded any allowance against these receivables. At June 30, 2014, there were no receivables past due, all amounts included in trade accounts receivable were due to timing-related matters and expected to be collected within one year and the Company did not hold any collateral for amounts due. Credit risk is further discussed in Note 19(a).

At June 30, 2014, included in trade accounts receivable is \$nil (June 30, 2013: \$nil) related to the sales of gold and silver produced by the Moss Mine pilot plant. While the Company is in the exploration and evaluation phase, proceeds, net of royalties, are being recorded as cost recoveries against the associated exploration and evaluation assets (Note 9).

**6 Reclamation deposits**

|                                   | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|-----------------------------------|--------------------------|------------------|
| Refundable reclamation deposits   | \$ <b>11,747</b>         | \$ 11,580        |
| Reclamation deposits              | <b>764,493</b>           | 753,650          |
| <b>Total reclamation deposits</b> | <b>\$ 776,240</b>        | \$ 765,230       |

Reclamation deposits are required by the Arizona Department of Environmental Quality ("ADEQ") and the Arizona State Mine Inspector's Office ("ASMI") for estimated reclamation and post-closure costs relating to the Company's Moss Mine. The reclamation deposits are represented by certificates of deposit ("CDs") held in the Company's name at a US-chartered commercial bank. The Company is entitled to the interest on the CDs, which is earned at a fixed annual rate of 0.6%, until maturity in 2018. The reclamation deposits cannot be withdrawn by the Company without the consents of ADEQ and ASMI.

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**7 Property, plant and equipment**

Property, plant and equipment changes for the years ended June 30, 2014 and 2013 were as follows:

|  | Buildings        | Vehicles          | Machinery and plant equipment | Computer equipment | Furniture and fixtures | Leasehold improvements | Total               |
|--|------------------|-------------------|-------------------------------|--------------------|------------------------|------------------------|---------------------|
| <b>Net book value at June 30, 2013</b> | <b>\$ 19,806</b> | <b>\$ 188,603</b> | <b>\$ 94,443</b>              | <b>\$ 16,502</b>   | <b>\$ 18,693</b>       | <b>\$ 2,121</b>        | <b>\$ 340,168</b>   |
| Additions                              | 60,220           | 18,458            | 1,118,780                     | 1,465              | 17,440                 | 67,804                 | <b>1,284,167</b>    |
| Disposal & write-down                  | -                | (73,090)          | (1,640)                       | -                  | -                      | -                      | <b>(74,730)</b>     |
| Depreciation                           | (13,401)         | (27,569)          | (254,403)                     | (7,032)            | (7,402)                | (12,210)               | <b>(322,017)</b>    |
| Impact of foreign exchange             | 285              | 2,726             | 1,364                         | 158                | 230                    | -                      | <b>4,763</b>        |
| <b>Net book value at June 30, 2014</b> | <b>\$ 66,910</b> | <b>\$ 109,128</b> | <b>\$ 958,544</b>             | <b>\$ 11,093</b>   | <b>\$ 28,961</b>       | <b>\$ 57,715</b>       | <b>\$ 1,232,351</b> |
| <b>Consisting of:</b>                  |                  |                   |                               |                    |                        |                        |                     |
| Cost                                   | 80,480           | 145,245           | 1,215,081                     | 21,104             | 36,524                 | 70,632                 | <b>1,569,066</b>    |
| Accumulated depreciation               | (13,570)         | (36,117)          | (256,537)                     | (10,011)           | (7,563)                | (12,917)               | <b>(336,715)</b>    |
|  | <b>\$ 66,910</b> | <b>\$ 109,128</b> | <b>\$ 958,544</b>             | <b>\$ 11,093</b>   | <b>\$ 28,961</b>       | <b>\$ 57,715</b>       | <b>\$ 1,232,351</b> |
| <b>Net book value at June 30, 2012</b> | <b>\$ -</b>      | <b>\$ -</b>       | <b>\$ -</b>                   | <b>\$ 1,456</b>    | <b>\$ -</b>            | <b>\$ -</b>            | <b>\$ 1,456</b>     |
| Additions                              | 19,494           | 189,795           | 93,378                        | 17,233             | 18,804                 | 2,828                  | <b>341,532</b>      |
| Depreciation                           | (161)            | (8,163)           | (2,037)                       | (2,643)            | (160)                  | (707)                  | <b>(13,871)</b>     |
| Impact of foreign exchange             | 473              | 6,971             | 3,102                         | 456                | 49                     | -                      | <b>11,051</b>       |
| <b>Net book value at June 30, 2013</b> | <b>\$ 19,806</b> | <b>\$ 188,603</b> | <b>\$ 94,443</b>              | <b>\$ 16,502</b>   | <b>\$ 18,693</b>       | <b>\$ 2,121</b>        | <b>\$ 340,168</b>   |
| <b>Consisting of:</b>                  |                  |                   |                               |                    |                        |                        |                     |
| Cost                                   | 19,967           | 196,766           | 96,480                        | 19,425             | 18,853                 | 2,828                  | <b>354,319</b>      |
| Accumulated depreciation               | (161)            | (8,163)           | (2,037)                       | (2,923)            | (160)                  | (707)                  | <b>(14,151)</b>     |
|  | <b>\$ 19,806</b> | <b>\$ 188,603</b> | <b>\$ 94,443</b>              | <b>\$ 16,502</b>   | <b>\$ 18,693</b>       | <b>\$ 2,121</b>        | <b>\$ 340,168</b>   |

**8 Investment in joint venture**

On February 12, 2013, the Company completed the sale of its 51% interest in the Lemhi Gold Trust, LLC ("Lemhi JV LLC") to Idaho State Gold Company, LLC ("ISGC," a private Idaho investment company) for consideration consisting of US\$4.75 million cash plus US\$2.90 million in deferred cash payments. The deferred cash payments, equal to 3% of all future expenditures at the Lemhi Gold Property (the "Lemhi Property") by the purchaser, are payable to the Company in quarterly instalments and capped at US\$2.90 million. ISGC previously owned the remaining 49% of the Lemhi Property and pursuant to the sale, assumed management and operating control at the Lemhi Property.

The Company realized a loss of \$2,723,322 on the sale of its interest in Lemhi JV LLC during the year ended June 30, 2013. This loss did not include any of the deferred cash payments that may be received in the future in respect of the sale of the Company's interest in Lemhi JV LLC. During the year ended June 30, 2014, the Company recorded \$58,650 (US\$54,091) as part of the deferred cash payments from ISGC, of which \$49,971 was included in trade and other receivables due to timing-related matters. Because of the uncertainty regarding the collectability of the deferred cash payments, the payments will be recorded as income when received.

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**9 Exploration and evaluation assets**

Changes in exploration and evaluation assets for the years ended June 30, 2014 and 2013 were as follows:

|  | Moss Mine            | Silver Creek<br>Property | Copley Gold<br>Project | Lemhi Gold<br>Project | Total                |
|--|----------------------|--------------------------|------------------------|-----------------------|----------------------|
| <b>Net book value at June 30, 2013</b>         | <b>\$ 11,915,070</b> | <b>\$ -</b>              | <b>\$ -</b>            | <b>\$ -</b>           | <b>\$ 11,915,070</b> |
| Additions (net of recoveries)                  | 4,195,343            | 37,517                   | -                      | -                     | 4,232,860            |
| Recognition of remaining reclamation provision | 348,118              | -                        | -                      | -                     | 348,118              |
| Impact of foreign exchange                     | 159,593              | -                        | -                      | -                     | 159,593              |
| <b>Net book value at June 30, 2014</b>         | <b>\$ 16,618,124</b> | <b>\$ 37,517</b>         | <b>\$ -</b>            | <b>\$ -</b>           | <b>\$ 16,655,641</b> |
| <b>Net book value at June 30, 2012</b>         | <b>\$ 4,366,487</b>  | <b>\$ -</b>              | <b>\$ 817,879</b>      | <b>\$ 68,080</b>      | <b>\$ 5,252,446</b>  |
| Additions                                      | 6,848,299            | -                        | 7,513                  | -                     | 6,855,812            |
| Initial recognition of reclamation provision   | 417,537              | -                        | -                      | -                     | 417,537              |
| Impairment                                     | -                    | -                        | (825,392)              | (67,758)              | (893,150)            |
| Impact of foreign exchange                     | 282,747              | -                        | -                      | (322)                 | 282,425              |
| <b>Net book value at June 30, 2013</b>         | <b>\$ 11,915,070</b> | <b>\$ -</b>              | <b>\$ -</b>            | <b>\$ -</b>           | <b>\$ 11,915,070</b> |

**Moss Mine** – Mohave County, Arizona

The Company entered into a letter agreement with Patriot Gold Corp. ("Patriot") effective March 7, 2011, whereby the Company was granted the right to earn a 70% interest in the Moss Gold-Silver Project (the "Moss Mine") located in Mohave County, Arizona. To fulfil the terms of the exploration and option agreement and thereby earn its interest, the Company, who paid Patriot US\$500,000 upon execution of the agreement, must spend an aggregate total of US\$8 million on exploration over five years as well as complete a feasibility study. As of June 30, 2014, the Company had spent in excess of US\$8 million, thereby satisfying the "earn-in" obligation excluding completion of the feasibility study. Subsequent to the Company's "earn-in", financing of further work on the property will be on a proportional basis under the direction of a management committee with voting rights proportional to ownership percentage and decisions based on a majority vote. If either party does not contribute their proportional share on future work programs, their interest will be diluted according to an agreed formula, and if either party's interest is diluted to less than 10%, that interest will be converted to a 3% net smelter returns ("NSR") royalty.

The Company paid a 3% finder's fee on the initial US\$500,000 payment to Patriot to a non-related party and pays a further 3% finder's fee on exploration expenditures, in quarterly instalments, to this non-related party. On commercial production, a fee of up to US\$15 per troy ounce of gold produced and up to US\$0.35 per troy ounce of silver produced is payable to this non-related party. The fee can be purchased by the Company for US\$2.4 million. For the year ended June 30, 2014, the Company recorded \$298,105 (2013: \$205,103) in the consolidated statements of operations and loss for this finder's fee.

The mineral property on which the Company's pilot plant activities are currently taking place is subject to a 1% NSR royalty arrangement. The royalty obligation is recognized when the Company receives payment on the sale of gold and silver produced from the pilot plant.

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**9 Exploration and evaluation assets** (continued)

Exploration and evaluation costs at the Moss Mine totalled \$16,618,124 at June 30, 2014 (2013: \$11,915,070) and consisted of the following:

|  | <b>June 30,<br/>2014</b> | June 30,<br>2013     |
|--|--------------------------|----------------------|
| Assay, surveys and analysis                      | \$ <b>675,232</b>        | \$ 585,967           |
| Depreciation and accretion                       | <b>344,251</b>           | -                    |
| Drafting   | <b>42,808</b>            | 42,198               |
| Engineering and technical services               | <b>12,590,953</b>        | 5,064,036            |
| Exploration drilling, blasting and hauling       | <b>4,207,940</b>         | 4,022,887            |
| Feasibility studies                              | <b>7,233</b>             | 7,233                |
| Field expenses                                   | <b>466,097</b>           | 246,891              |
| Geographic information services                  | <b>243,143</b>           | 129,037              |
| Geotechnical                                     | <b>94,056</b>            | 93,178               |
| Maintenance                                      | <b>342,346</b>           | 223,119              |
| Office and administration costs                  | <b>569,122</b>           | 281,979              |
| Process inventory                                | <b>279,299</b>           | -                    |
| Property acquisition costs                       | <b>486,450</b>           | 486,450              |
| Prospecting                                      | <b>17,956</b>            | 17,956               |
| Provision for reclamation and remediation        | <b>771,689</b>           | 417,537              |
| Scoping studies                                  | <b>188,105</b>           | 185,425              |
| Surveying  | <b>48,345</b>            | 42,428               |
| Technical reports                                | <b>83,613</b>            | 68,749               |
| Proceeds from gold and silver sales <sup>1</sup> | <b>(4,840,514)</b>       | -                    |
| <b>Total Moss Mine</b>                           | <b>\$ 16,618,124</b>     | <b>\$ 11,915,070</b> |

<sup>1</sup> Net of royalties and selling costs

**Silver Creek Property** – Mohave County, Arizona

On May 7, 2014 (the "Effective Date"), the Company secured an option on the Silver Creek property, located adjacent to the Moss Mine with La Cuesta International, Inc. ("LCI"). To fulfil the terms of the 35 year mineral lease and option agreement, the Company, who paid LCI US\$5,000 and issued 100,000 common shares of the Company upon execution of the agreement, must also meet the following commitments:

- i. Pay LCI US\$10,000 cash and fund a minimum of US\$15,000 on work commitments by the first anniversary of the Effective Date;
- ii. Pay LCI US\$20,000 cash and fund a minimum of US\$20,000 on work commitments by the second anniversary of the Effective Date;
- iii. Pay LCI US\$30,000 cash and fund a minimum of US\$200,000 on work commitments by the third anniversary of the Effective Date;
- iv. Pay LCI US\$45,000 cash by the fourth anniversary of the Effective Date; and
- v. Pay LCI US\$25,000 cash every six months, thereafter.

The agreement provides for a production royalty of 1.5% NSR on claims owned by LCI and 0.5% NSR on third party claims within the claim block, with the NSR rates reduced by half once US\$4 million in total royalties has been paid. All payments other than the work commitments are credited against the royalty. The Company can also acquire the claims at any time for US\$4 million in any combination of aggregate royalty payments and lump-sum payments at its sole discretion.



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**9 Exploration and evaluation assets** (continued)

**Silver Creek Property** – Mohave County, Arizona

|                                    | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|------------------------------------|--------------------------|------------------|
| Property acquisition costs         | \$ <b>37,517</b>         | \$ -             |
| <b>Total Silver Creek Property</b> | <b>\$ 37,517</b>         | \$ -             |

**Copley Gold Property** – Fraser Lake, British Columbia

On November 10, 2010, the Company entered into an option agreement with Kootenay Silver Inc. ("Kootenay"), whereby the Company was granted the right to earn a 60% interest in the Copley Gold property ("Copley") located in the Nechako Plateau of Central British Columbia. The Company terminated the agreement and during the year ended June 30, 2013 and recorded an impairment of \$825,392 representing its carrying value for the Copley property.

**Summary of Total Exploration and Evaluation Assets**

|  | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|--|--------------------------|------------------|
| Total Moss Mine                                | \$ <b>16,618,124</b>     | \$ 11,915,070    |
| Total Silver Creek Property                    | <b>37,517</b>            | -                |
| <b>Total Exploration and Evaluation Assets</b> | <b>\$ 16,655,641</b>     | \$ 11,915,070    |

**10 Intangible assets**

Changes in intangible assets for the years ended June 30, 2014 and 2013 were as follows:

|  | <b>Computer<br/>Software</b> |
|--|------------------------------|
| <b>Net book value at June 30, 2013</b> | <b>\$ 122,000</b>            |
| Additions                              | 43,897                       |
| Depreciation                           | (55,031)                     |
| Impact of foreign exchange             | 606                          |
| <b>Net book value at June 30, 2014</b> | <b>\$ 111,472</b>            |
| <b>Consisting of:</b>                  |                              |
| Cost                                   | 169,811                      |
| Accumulated depreciation               | (58,339)                     |
|  | <b>\$ 111,472</b>            |
| <b>Net book value at June 30, 2012</b> | <b>\$ -</b>                  |
| Additions                              | 124,773                      |
| Depreciation                           | (3,307)                      |
| Impact of foreign exchange             | 534                          |
| <b>Net book value at June 30, 2013</b> | <b>\$ 122,000</b>            |
| <b>Consisting of:</b>                  |                              |
| Cost                                   | 125,307                      |
| Accumulated depreciation               | (3,307)                      |
|  | <b>\$ 122,000</b>            |

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**11 Trade and other payables**

|                                       | <b>June 30,<br/>2014</b> | June 30,<br>2013    |
|---------------------------------------|--------------------------|---------------------|
| Trade accounts payable                | \$ 420,673               | \$ 2,008,776        |
| Accrued liabilities                   | 742,824                  | 305,880             |
| Other                                 | -                        | 26,583              |
| <b>Total trade and other payables</b> | <b>\$ 1,163,497</b>      | <b>\$ 2,341,239</b> |

Included in accrued liabilities was \$545,804 for consulting services; management fees; professional fees; administrative costs; and salaries, wages, benefits and subcontractor expenses that were deferred as at June 30, 2014. In the third and fourth fiscal quarters of 2014, the Company's directors, officers and related companies agreed to significant financial sacrifices that included salary and consulting fees suspensions as part of an aggressive cost reduction program.

**12 Provision for reclamation and remediation**

|                                    | <b>June 30,<br/>2014</b> | June 30,<br>2013  |
|------------------------------------|--------------------------|-------------------|
| Balance, beginning of year         | \$ 417,537               | \$ -              |
| Recognition of remaining provision | 348,118                  | -                 |
| Accretion                          | 11,072                   | -                 |
| Impact of foreign exchange         | 6,034                    | -                 |
| Initial recognition of provision   | -                        | 417,537           |
| <b>Balance, end of year</b>        | <b>\$ 782,761</b>        | <b>\$ 417,537</b> |

The Company's provision for reclamation and remediation relates to the environmental restoration and closure costs associated with the Moss Mine. The provision has been recorded at its net present value using a discount rate of 1.88% and a long-term inflation rate of 2%, with expenditures anticipated over a ten-year period beginning in 2020. The provision is re-measured at each reporting date, with accretion being charged to the associated property asset. The total undiscounted amount of the Company's estimated obligation for its Phase I operation at the Moss Mine is US\$855,349, of which the Company estimated US\$460,565 had been incurred at June 30, 2013 and the remainder had been incurred in the three months ended September 30, 2013. All assumptions used in the calculation of the reclamation and remediation provision are subject to change.

**13 Share capital and contributed surplus**

**a) Share Capital**

Authorized capital consists of an unlimited number of common shares without par value. At June 30, 2014, there were 57,899,348 (2013: 52,563,348) common shares issued and fully paid, and no common shares held in escrow.

Private placements completed during the years ended June 30, 2014 and 2013 were as follows:

- Subsequent to June 30, 2014, the Company closed a non-brokered private placement for total gross proceeds of \$3,760,525, of which \$2,355,000 was received as at June 30, 2014 (see Note 22).
- On June 20, 2014, the Company issued 100,000 common shares in respect of the Silver Creek mineral lease and option agreement. The fair value of shares were measured at \$32,000.

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**13 Share capital and contributed surplus** (continued)

- On September 25, 2013, the Company issued 5,236,000 units at \$0.65 per unit for total gross proceeds of \$3,403,400. Each unit consisted of one common share and one-half of a share purchase warrant. One whole warrant is exercisable into an additional common share for \$0.90 per share expiring March 25, 2015. The Company paid finders' fees of \$209,180 and share issuance costs of \$25,219 in connection with this financing. The fair value of warrants was estimated as \$675,662, using Black-Scholes option-pricing model and recorded to contributed surplus. Out of net proceeds, the remaining amount was recorded to share capital.
- On November 26, 2012, the Company issued 7,319,000 units at \$1.25 per unit for total gross proceeds of \$9,148,750. Each unit consisted of one common share and one-half of a share purchase warrant. One whole warrant is exercisable into an additional common share for \$1.75 per share expiring November 26, 2014. The Company paid finders' fees of \$557,781 and share issuance costs of \$67,098 in connection with this financing.

**b) Stock Options**

The Company has adopted an incentive stock option plan under the rules of the TSX Venture Exchange ("TSXV") pursuant to which it is authorized to grant options to employees, consultants, directors and officers, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option is equal to the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 10 years and generally vest 25% in specified increments. No individual may be granted options exceeding 5% of the Company's common shares outstanding in any 12-month period.

Continuity of the Company's stock options issued and outstanding for the years ended June 30, 2014 and 2013 was as follows:

|                                 | <b>June 30,<br/>2014</b>     |  | <b>June 30,<br/>2013</b>     |  |
|---------------------------------|------------------------------|--|------------------------------|--|
|                                 | <b>Number of<br/>options</b> | <b>Weighted average<br/>exercise price</b> | <b>Number of<br/>options</b> | <b>Weighted average<br/>exercise price</b> |
| Outstanding, beginning of year  | 4,273,000                    | \$ 1.17                                    | 2,098,000                    | \$ 0.58                                    |
| Granted                         | 1,435,000                    | 0.65                                       | 3,100,000                    | 1.36                                       |
| Exercised                       | -                            | -  | (25,000)                     | 0.45                                       |
| Forfeited /cancelled            | (813,000)                    | 0.91                                       | (400,000)                    | 1.01                                       |
| Expired                         | -                            | -  | (500,000)                    | 0.10                                       |
| <b>Outstanding, end of year</b> | <b>4,895,000</b>             | <b>\$ 1.06</b>                             | <b>4,273,000</b>             | <b>\$ 1.17</b>                             |

On September 25, 2013, the Company granted 1,435,000 stock options to employees, consultants, directors and officers with an exercise price of \$0.65 and an expiry date of September 25, 2018.

As at June 30, 2014, the following stock options were outstanding and exercisable:

| <b>Exercise<br/>price</b> | <b>Number of options<br/>outstanding</b> | <b>Expiry date</b> | <b>Number of options<br/>exercisable</b> | <b>Remaining<br/>contractual life<br/>(years)</b> |
|---------------------------|--|--------------------|--|---|
| \$ 0.45                   | 560,000                                  | November 13, 2015  | 560,000                                  | 1.37  |
| 1.00                      | 200,000                                  | May 17, 2016       | 200,000                                  | 1.88  |
| 1.30                      | 200,000                                  | December 12, 2016  | 200,000                                  | 2.45  |
| 1.40                      | 2,200,000                                | November 11, 2017  | 2,200,000                                | 3.37  |
| 1.40                      | 200,000                                  | January 21, 2018   | 150,000                                  | 3.56  |
| 1.40                      | 100,000                                  | February 1, 2018   | 75,000                                   | 3.59  |
| 0.85                      | 200,000                                  | June 6, 2018       | 150,000                                  | 3.94  |
| 0.65                      | 1,235,000                                | September 25, 2018 | 617,500                                  | 4.24  |
|                           | <b>4,895,000</b>                         |                    | <b>4,152,500</b>                         |   |

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**13 Share capital and contributed surplus** (continued)

The weighted-average remaining contractual life of options outstanding at June 30, 2014 was 3.30 years (2013: 3.92 years).

**c) Share-based payment expense**

Share-based payment expense is measured at fair value and recognized over the vesting period from the date of grant. Share-based payment expense recognized in the consolidated statements of operations and loss for the year ended June 30, 2014 totalled \$1,391,262 (2013: \$2,329,489). The weighted-average grant-date fair value of stock options issued during the year ended June 30, 2014 was \$0.51 (2013: \$1.00).

The fair value of stock options granted during the years ended June 30, 2014 and 2013 was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

|                          | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|--------------------------|--------------------------|------------------|
| Risk-free interest rate  | <b>1.89%</b>             | 1.35%            |
| Expected life of options | <b>5 years</b>           | 5 years          |
| Dividend rate            | <b>0.00%</b>             | 0.00%            |
| Expected forfeiture rate | <b>0.00%</b>             | 0.00%            |
| Expected volatility      | <b>106.42%</b>           | 103.9%           |

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company has used historical volatility in its share price to estimate expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimated.

**d) Warrants**

Share purchase warrants enable the holders to acquire common shares of the Company upon exercise. Continuity of warrants issued and outstanding for the years ended June 30, 2014 and 2013 were as follows:

|                                 | <b>June 30,<br/>2014</b>      |  | <b>June 30,<br/>2013</b>      |  |
|---------------------------------|-------------------------------|--|-------------------------------|--|
|                                 | <b>Number of<br/>warrants</b> | <b>Weighted average<br/>exercise price</b> | <b>Number of<br/>warrants</b> | <b>Weighted average<br/>exercise price</b> |
| Outstanding, beginning of year  | 10,798,174                    | \$ 1.57                                    | 7,138,674                     | \$ 1.48                                    |
| Issued                          | 2,618,000                     | 0.90                                       | 3,659,500                     | 1.75                                       |
| <b>Outstanding, end of year</b> | <b>13,416,174</b>             | <b>\$ 1.44</b>                             | <b>10,798,174</b>             | <b>\$ 1.57</b>                             |

As at June 30, 2014, the Company had outstanding share purchase warrants as follows:

| Number of warrants | Exercise<br>price | Expiry date       |
|--------------------|-------------------|-------------------|
| 1,321,500          | \$ 1.15           | October 4, 2014   |
| 5,817,174          | 1.55              | November 23, 2014 |
| 3,659,500          | 1.75              | November 26, 2014 |
| 2,618,000          | 0.90              | March 25, 2015    |
| <b>13,416,174</b>  |                   |                   |

The fair value of warrants issued is estimated using the Black-Scholes option-pricing model and included in contributed surplus until exercised, at which time the fair value is reclassified to share capital.

The weighted average remaining life of the outstanding warrants as at June 30, 2014 was 0.45 years (2013: 0.72 years).

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**13 Share capital and contributed surplus** (continued)

On September 24, 2013, the Company amended the expiration date of 1,321,500 warrants exercisable at \$1.15 from October 4, 2013 to October 4, 2014 and 5,817,174 warrants exercisable at \$1.55 from November 23, 2013 to November 23, 2014. In all other respects, the terms of these warrants remain unchanged. As a result of this amendment, the Company reclassified \$930,320 of the fair value of outstanding warrants from share capital to contributed surplus.

On March 28, 2013, the Company announced that it amended the expiry date of an aggregate total of 1,321,500 unexercised share purchase warrants. Pursuant to the non-brokered unit private placement announced on March 2, 2011, a total of 1,571,500 warrants were issued on April 5, 2011 expiring on April 4, 2013. A total of 1,321,500 warrants remain outstanding; the original expiry date of the warrants was extended for an additional six months, to October 4, 2013, with the exercise price per warrant remaining unchanged at \$1.15. In all other respects, the terms of the warrants remained unchanged. As a result of this amendment, the Company reclassified \$278,969 of the fair value of outstanding warrants from share capital to contributed surplus.

The weighted-average fair value of warrants on their date of issue during the year ended June 30, 2014 was \$0.26 (2013: \$0.53). The following weighted average assumptions were used for the Black–Scholes valuation of warrants issued during the years ended June 30, 2014 and 2013:

|                           | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|---------------------------|--------------------------|------------------|
| Risk-free interest rate   | <b>1.21%</b>             | 1.09%            |
| Expected life of warrants | <b>1.5 years</b>         | 2 years          |
| Dividend rate             | <b>0.00%</b>             | 0.00%            |
| Expected volatility       | <b>104.33%</b>           | 86.6%            |

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company has used historical volatility in its share price to estimate expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimated.

**e) Earnings per Share**

The calculation of basic loss per share for the year ended June 30, 2014 was based on the loss of \$4,166,638 (2013: \$7,919,005) and the weighted average number of common shares outstanding of 56,554,055 (2013: 49,501,003) respectively. The Company does not have any instruments that would give rise to a dilution effect as of June 30, 2014. The Company has 4,152,500 exercisable options and 13,416,174 warrants that are anti-dilutive and not included in diluted loss per share as of June 30, 2014.

**14 Foreign exchange gains and losses**

These consolidated financial statements are presented in Canadian dollars which is the Company's presentation and functional currency, while the functional currency of the Company's subsidiaries is the US dollar. Foreign exchange gains and losses therefore arise from the translation of US dollar-denominated transactions and balances relative to the Canadian dollar. The Company has accumulated significant loans receivable from its subsidiaries as it continues to fund exploration and development activities at the Moss Mine and fluctuations in the US dollar can lead to substantial unrealized foreign exchange gains or losses on the loans owing to the Canadian parent company.

The foreign exchange gain recorded in the consolidated statements of operations and loss for the year ended June 30, 2014 reflected the strengthening of the US dollar compared to the Canadian dollar as well as significant increases in loans to the subsidiaries as exploration and development activities increased at the Moss Mine during the year.

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**15 Income taxes**

**a) Income tax expense**

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and loss for the years ended June 30, 2014 and 2013:

|   | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|---|--------------------------|------------------|
| Net loss before taxes                     | \$ (4,166,638)           | \$ (7,919,005)   |
| Canadian statutory income tax rate        | <b>26.00%</b>            | 25.11%           |
| Expected income tax (recovery)            | \$ (1,083,326)           | \$ (1,988,430)   |
| Non-deductible items                      | <b>261,690</b>           | 614,495          |
| Change in estimates                       | <b>(196,326)</b>         | 152,465          |
| Change in enacted tax rate                | -                        | (100,509)        |
| Functional currency adjustments           | <b>(33,677)</b>          | (99,682)         |
| Share issuance costs                      | -                        | (156,905)        |
| Foreign tax rate difference               | <b>(702,923)</b>         | (712,504)        |
| Change in unrecognized deferred tax asset | <b>1,754,562</b>         | 2,291,070        |
| Total income taxes (recovery)             | \$ -                     | \$ -             |

**b) Deferred tax assets and liabilities**

Temporary differences and tax losses arising in Canada and the United States have not been recognized as deferred tax assets due to the fact that management has determined it is not probable that sufficient future taxable profits will be earned in these jurisdictions to recover such assets. The unrecognized net deferred tax assets as at June 30, 2014 and 2013 are summarized as follows:

|                                   | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|-----------------------------------|--------------------------|------------------|
| <b>Canada</b>                     |                          |                  |
| Non-capital loss carry-forwards   | \$ 68,646                | \$ 373,156       |
| Exploration and evaluation assets | <b>291,298</b>           | 182,884          |
| Property, plant and equipment     | <b>10,722</b>            | 1,439            |
| Financial instruments             | -                        | (78,344)         |
| Share issuance costs              | <b>249,982</b>           | 287,254          |
|                                   | <b>620,648</b>           | 766,389          |
| Deferred tax asset not recognized | <b>(620,648)</b>         | (766,389)        |
| Net deferred tax asset            | \$ -                     | \$ -             |

|                                   | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|-----------------------------------|--------------------------|------------------|
| <b>United States</b>              |                          |                  |
| Net operating loss carry-forwards | \$ 2,476,388             | \$ 1,001,353     |
| Financial instruments             | <b>2,500,647</b>         | 1,534,897        |
| Property, plant and equipment     | <b>17,335</b>            | (21,922)         |
| Exploration and evaluation assets | <b>(887,231)</b>         | (307,492)        |
|                                   | <b>4,107,139</b>         | 2,206,836        |
| Deferred tax asset not recognized | <b>(4,107,139)</b>       | (2,206,836)      |
| Net deferred tax asset            | \$ -                     | \$ -             |

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**15 Income taxes** (continued)

Management assess these temporary differences regularly and adjusts the unrecognized deferred tax assets in the period when management determines it is probable that some portion of the assets will be realized.

The Company has non-capital loss carryforwards of approximately \$264,023 (2013: \$1,435,218), which may be carried forward to apply against future year income tax for Canadian tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

|  |       |    |         |
|--|-------|----|---------|
|  | 2032  |    | 264,023 |
|  | Total | \$ | 264,023 |

The Company has net operating loss carryforwards of approximately \$6,390,678 (2013: \$2,590,087), which may be carried forward to apply against future year income tax for U.S. tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

|  |       |    |           |
|--|-------|----|-----------|
|  | 2031  | \$ | 361,262   |
|  | 2032  |    | 1,258,616 |
|  | 2033  |    | 765,789   |
|  | 2034  |    | 4,005,011 |
|  | Total | \$ | 6,390,678 |

**16 Supplemental disclosure of non-cash activities**

During the years ended June 30, 2014 and 2013, the following non-cash investing and financing activities occurred:

|   | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|---|--------------------------|------------------|
| Recognition of provision for reclamation and remediation                          | <b>\$ 349,195</b>        | \$ 417,537       |
| Issuance of share capital for exploration and evaluation asset                    | <b>32,000</b>            | 260,000          |
| Fair value of stock options exercised   | -                        | 10,275           |
| Changes in trade and other payables included in exploration and evaluation assets | <b>1,910,155</b>         | (2,000,424)      |
| Depreciation and accretion included in exploration and evaluation assets          | <b>345,315</b>           | -                |

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**17 Related party transactions**

The following related party transactions were incurred in the normal course of business and measured at their fair value as determined by management. Amounts due to or from related parties are non-interest bearing, unsecured and due on demand.

During the year ended June 30, 2014, the Company entered into the following transactions with related parties:

- a) Consulting fees of \$342,775 (2013: \$429,092) included in professional fees, subcontractor expenses and deferred mineral property expenditures were charged by companies controlled by certain directors of the Company. Included in trade and other payables at June 30, 2014 was \$179,530 (2013: \$nil) accrued for these services.
- b) Consulting fees and shared office expenses of \$28,891 (2013: \$33,769) included in marketing, rent, travel and office and miscellaneous expenses was charged by a company with directors in common. Included in trade and other payables at June 30, 2014 was \$92,686 (2013: 37,968). Included in trade and other receivables at June 30, 2014 was \$26,642 (2013: \$26,788).
- c) Administration income of \$nil (2013: income of \$39,493) included in other income was received from the Company's previously held joint venture interest, Lemhi JV LLC.
- d) The Company incurred \$224,062 (2013: \$302,853) for share based payments to related parties during the year ended June 30, 2014.

As part of an aggressive cost reduction program, directors of related companies agreed to significant financial sacrifices including salary and consulting fee suspensions in the third and fourth quarters of fiscal 2014. Trade and other payables of \$164,108 related to these suspensions, were deferred as at June 30, 2014.

**Commitments with related parties**

The Company has entered into a corporate services agreement with Touchstone Capital Inc. for clerical, accounting, regulatory filing and geological services. The monthly fee under the agreement is \$10,000 and renews annually on December 1 of each year.

**Key management personnel compensation**

Key management personnel includes the Company's directors and key employees consisting of the Chairman of the Board, the President and Chief Executive Officer, the Chief Financial Officer and Corporate Secretary and the General Manager – Moss Project.

As part of an aggressive cost reduction program, key management personnel agreed to significant financial sacrifices including salary and consulting fee suspensions in the third and fourth quarters of fiscal 2014. Trade and other payables of \$349,683 related to these suspensions, were deferred as at June 30, 2014.

Compensation for the years ended June 30, 2014 and 2013 was as follows:

|   | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|---|--------------------------|------------------|
| Salaries and short-term benefits <sup>1</sup> | \$ <b>929,728</b>        | \$ 443,789       |
| Share-based payments                          | <b>689,917</b>           | 1,474,501        |
| <b>Total</b>                                  | <b>\$ 1,619,645</b>      | \$ 1,918,290     |

<sup>1</sup>Salaries and short-term benefits are included in salaries, wages, benefits and subcontractor expenses, management fees, and deferred mineral property expenditures.



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**18 Commitments**

**Lease commitments** - The Company has entered into contracts for leased premises, which expire at various dates through to July 2018. Lease payments recognized as an expense during the year ended June 30, 2014 totalled \$74,231 (2013: \$24,668). Total future minimum lease payments (net of sub-lease arrangement) under these contracts are as follows:

|               |    |        |
|---------------|----|--------|
| Within 1 year | \$ | 51,696 |
| 2 to 3 years  |    | 83,542 |
| 4 to 5 years  |    | 40,155 |

**19 Financial instruments and financial risk management**

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values due to the short-term nature of these instruments. Reclamation deposits consist primarily of reclamation deposits represented by certificates of deposit ("CDs") held with a US chartered commercial bank. As the CDs are highly liquid in nature and interest is paid to the Company monthly, the carrying value approximates fair value.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value in the fair value hierarchy.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Cash and cash equivalents are valued using quoted market prices and have been included in Level 1 of the fair value hierarchy.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly. The Company has no financial instruments classified in Level 2.

Level 3 – Inputs that are not based on observable market data. The Company has no financial instruments classified in Level 3.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at June 30, 2014:

| <b>Financial Assets</b>   |    | <b>Level 1</b> |    | <b>Level 2</b> |    | <b>Level 3</b> |    | <b>Total</b> |
|---------------------------|----|----------------|----|----------------|----|----------------|----|--------------|
| Cash and cash equivalents | \$ | 4,052,812      | \$ | -              | \$ | -              | \$ | 4,052,812    |

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

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**19 Financial instruments and financial risk management** (continued)

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout the consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations. The Company has credit risk in respect of its cash and cash equivalents, trade and other receivables, and reclamation deposits. The Company considers the risk of loss relating to cash and cash equivalents and reclamation deposits to be low because these instruments are held only with highly-rated financial institutions. Trade and other receivables at June 30, 2014 related primarily to amounts due from related parties and are expected to be collectible in full due to the nature of the counterparties and a previous history of collectability.

(b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company manages its liquidity risk through the preparation of annual expenditure budgets, which are regularly monitored and updated as management considers necessary, and through the Company's capital management activities.

As at June 30, 2014, the Company's financial liabilities were comprised of trade and other payables of \$1,163,497 (2013: \$2,341,239), which have a maturity of less than one year.

(c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

(i) Currency risk

Foreign currency exchange rate risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate as a result of changes in foreign exchange rates. The Company is considered to be in the exploration and development stage and has not yet developed commercial mineral interests; the underlying market prices realized by the Company for mineral sales are impacted by changes in the exchange rate between the Canadian and the US dollar. The Company has not entered into any formal arrangements to hedge currency risk but does maintain cash balances within each currency. Canadian dollars are exchanged when needed to meet foreign denominated liabilities.

At June 30, 2014, \$697,453 of the Company's cash and cash equivalents were denominated in US dollars. A 10% variation in the US dollar exchange rate would result in an impact of approximately \$69,745 on annual net loss.

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**19 Financial instruments and financial risk management** (continued)

(ii) Commodity price risk

Commodity price risk is the risk that the current and future cash flows from the Company's financial instruments will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and US dollar, as outlined above. Management closely monitors trends in commodity prices of gold and other precious and base metals as part of its routine activities, as these trends could significantly impact future cash flows.

(iii) Interest rate risk

Interest rate risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate as a result of changes in market interest rates. Interest rate risk arises from the interest rate impact on cash and cash equivalents, which are held at variable market rates. The Company closely monitors its exposure to interest rate risk and has not entered into any derivative contracts to manage this risk. At June 30, 2014, the weighted-average interest rate on cash and cash equivalents was 1.23%. With other variables unchanged, a 1% increase in the annualized interest rate would reduce annual net loss by \$40,399.

**20 Capital management**

In assessing the capital structure of the Company, management includes in its assessment the components of shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company does not have any debt obligation other than unsecured trade accounts payable. The availability of capital is solely through the issuance of the Company's common shares. There are no assurances that funds will be made available to the Company when required. The Company makes every effort to safeguard its capital and minimize the dilution to its shareholders. The property, which the Company currently is in the process of earning an interest in, is in the exploration and development stage and the Company has recorded limited recoveries from gold and silver produced at the property-to-date. The Company's historical sources of capital have consisted of the sale of equity securities. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and expects to raise additional amounts externally, as needed.

The Company is not subject to any externally imposed capital requirements. Since there has been significant uncertainty in the capital markets along with depressed commodity prices, the Company continues to evaluate financing alternatives to advance the Moss Mine Project. The ability to raise additional funding for future activities may be impaired due to market or other risks, or such financing may not be available on favourable terms, due to conditions beyond the control of the Company.

The Company manages capital through its operating and financial budgeting and forecasting processes on a regular basis. The Company reviews its working capital and forecasts its future cash flows, based on actual and forecasted operating results and other investing and financing activities. This information along with possible alternatives are reviewed by management and the Board of Directors of the Company on a regular basis to ensure the best mix of capital resources meet the Company's needs. The Company makes strategic and financial adjustments according to market conditions in an effort to meet its objectives given the Company's operating and financial performance and the current outlook for the business and for the industry in general.

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**21 Segmented information**

The Company has one reportable operating segment, being the acquisition, exploration and future development of mineral properties. Non-current assets (other than financial instruments) by geographic location are as follows:

|                                   |           | <b>June 30, 2014</b> |                      |                      |
|-----------------------------------|-----------|----------------------|----------------------|----------------------|
|                                   |           | <b>Canada</b>        | <b>USA</b>           | <b>Total</b>         |
| Property, plant and equipment     | \$        | 59,544               | \$ 1,172,807         | \$ 1,232,351         |
| Reclamation deposits              |           | -                    | 776,240              | 776,240              |
| Exploration and evaluation assets |           | -                    | 16,655,641           | 16,655,641           |
| Intangible assets                 |           | 83,123               | 28,349               | 111,472              |
| <b>Total</b>                      | <b>\$</b> | <b>142,667</b>       | <b>\$ 18,633,037</b> | <b>\$ 18,775,704</b> |

  

|                                   |           | <b>June 30, 2013</b> |                      |                      |
|-----------------------------------|-----------|----------------------|----------------------|----------------------|
|                                   |           | <b>Canada</b>        | <b>USA</b>           | <b>Total</b>         |
| Property, plant and equipment     | \$        | 10,545               | \$ 329,623           | \$ 340,168           |
| Reclamation deposits              |           | -                    | 765,230              | 765,230              |
| Exploration and evaluation assets |           | -                    | 11,915,070           | 11,915,070           |
| Intangible assets                 |           | 80,013               | 41,987               | 122,000              |
| <b>Total</b>                      | <b>\$</b> | <b>90,558</b>        | <b>\$ 13,051,910</b> | <b>\$ 13,142,468</b> |

**22 Subsequent events**

**Private placement** - On July 11, 2014, the Company announced that it had closed the second and final tranche of its non-brokered private placement ("Private Placement") and raised aggregate gross proceeds of \$3,760,525 by issuing an aggregate total of 15,042,098 units (each "Unit") at a purchase price of \$0.25 per Unit. The initial tranche of the Private Placement closed on July 3, 2014, with an issuance of 11,042,098 Units. Each Unit consists of one common share ("Common Share") of the Company and one-half transferable share purchase warrant ("Warrant"). Each whole Warrant will entitle the holder to acquire one Common Share at an exercise price of \$0.50 for a period of 24 months from the closing date of the Private Placement. Cash finders' fees of \$216,475 were paid to arm's length parties in relation to the private placement. As at June 30, 2014, the Company had received subscriptions in advance for proceeds of \$2,355,000 related to this private placement.

All of the securities issued pursuant to the Private Placement will be subject to a minimum four-month hold period from the date of issue. The Company intends to use the net proceeds of the Private Placement for the advancement of the Company's Moss Mine Gold-Silver property located in Mohave County, NW Arizona, USA, primarily the completion of a feasibility study and for general corporate purposes.

**Warrant expiration date amendment** - On September 25, 2014, the Company amended the expiration date of 1,321,500 warrants exercisable at \$1.15 from October 4, 2014 to October 4, 2015. In all other respects, the terms of these warrants remain unchanged.