INDEPENDENCE GOLD CORP.

**Consolidated Financial Statements**

**For the Year Ended**

**December 31, 2013**

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Independence Gold Corp.

We have audited the accompanying consolidated financial statements of Independence Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Independence Gold Corp. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada — Chartered Accountants

April 10, 2014

**INDEPENDENCE GOLD CORP.**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

| | December 31 2013 | December 31 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | $ 4,922,152 | $ 5,093,683 |
| Short-term investments (Note 4) | 3,853,073 | 7,134,899 |
| Marketable securities (Note 6) | 17,000 | 11,000 |
| Receivables (Note 5, 12) | 39,964 | 208,709 |
| Prepaid expenses | 23,271 | 31,636 |
| | 8,855,460 | 12,479,927 |
| **Land use deposits** (Note 9) | 67,000 | 67,000 |
| **Exploration advances** | 50,000 | 50,000 |
| **Mineral properties** (Note 10) | 13,231,005 | 14,019,644 |
| | $ 22,203,465 | $ 26,616,571 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Note 7, 12) | $ 32,420 | $ 475,792 |
| Loan payable (Note 8) | - | 1,000,000 |
| | 32,420 | 1,475,792 |
| **Shareholders' equity** | | |
| Share capital (Note 13) | 33,096,647 | 33,068,647 |
| Reserves | 652,857 | 569,972 |
| Deficit | (11,578,459) | (8,497,840) |
| | 22,171,045 | 25,140,779 |
| | $ 22,203,465 | $ 26,616,571 |

**Commitments** (Note 11)

Approved and authorized by the Board on April 10, 2014

*"Randy C. Turner"*
Randy C. Turner, Director

*"Michael McPhie"*
Michael McPhie, Director

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

**INDEPENDENCE GOLD CORP.**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

for the year ended December 31, 2013 and 2012 (Expressed in Canadian Dollars)

| | 2013 | 2012 |
|---|---|---|
| **EXPENSES** | | |
| Exploration expenditures (Note 10) | $ 1,251,810 | $ 3,005,207 |
| Insurance | 10,980 | 43,096 |
| Legal, audit and accounting | 43,301 | 101,377 |
| Management fees and corporate services | 309,660 | 343,279 |
| Office and miscellaneous | 109,632 | 76,104 |
| Regulatory and transfer agent fees | 20,743 | 33,813 |
| Rent | 203,071 | 176,538 |
| Share-based compensation (Note 13) | 87,445 | 583,651 |
| Shareholder communications | 32,075 | 56,631 |
| Travel | 19,774 | 68,369 |
| Wages and benefits | 302,647 | 297,601 |
| | (2,391,138) | (4,785,666) |
| **Interest income** | 156,598 | 192,287 |
| **Unrealized (loss)/gain on marketable securities** (Note 6) | 6,000 | (31,000) |
| **Write-off of mineral properties** (Note 10) | (856,639) | (820,150) |
| | (694,041) | (658,863) |
| **Loss and comprehensive loss for the year** | $ (3,085,179) | $ (5,444,529) |
| **Basic and diluted loss per common share** | $ (0.07) | $ (0.13) |
| **Weighted average number of common shares outstanding** | 43,703,423 | 43,405,362 |

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

**INDEPENDENCE GOLD CORP.**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2013 and 2012 (Expressed in Canadian Dollars)

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Income (loss) for the year | $ (3,085,179) | $ (5,444,529) |
| Items not affecting cash: | | |
| Write-off of mineral properties | 856,639 | 820,150 |
| Stock-based compensation | 19,774 | 68,369 |
| Interest on short-term investments | 28,642 | (48,574) |
| Unrealized (gain)/loss on marketable securities | (6,000) | 31,000 |
| Changes in non-cash working capital items: | | |
| (Increase) decrease in receivables | 168,745 | 534,087 |
| (Increase) decrease in prepaid expenses | 8,365 | (31,636) |
| Increase (decrease) in accounts payable and accrued liabilities | (443,372) | 475,792 |
| Net cash used in operating activities | (2,452,386) | (3,595,341) |
| **Cash flows from financing activities** | | |
| Repayment of loan | (1,000,000) | - |
| Net cash provided by (used in) financing activities | (1,000,000) | - |
| **Cash flows from investing activities** | | |
| Acquisition of mineral properties | (40,000) | (80,000) |
| Disposition of mineral properties | - | 50,000 |
| (Increase) decrease in short-term investments | 3,253,184 | (6,123,275) |
| Land use deposits | - | (67,000) |
| Net cash provided by (used in) investing activities | 3,213,184 | (6,220,275) |
| **Change in cash and cash equivalents during the year** | (239,202) | (9,815,616) |
| **Cash and cash equivalents, beginning of the year** | 5,093,683 | 14,394,017 |
| **Cash and cash equivalents, end of the year** | $ 4,854,481 | $ 4,578,401 |

**Supplemental disclosure with respect to cash flows** (Note 15)

| | 2013 | 2012 |
|---|---|---|
| **Cash and cash equivalents consist of:** | | |
| Cash | $ 205,976 | $ 1,455,697 |
| Cash equivalents | 4,716,176 | 3,637,986 |
| | 4,922,152 | 5,093,683 |
| Cash received for interest: | $ 185,240 | $ 143,714 |

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

**INDEPENDENCE GOLD CORP.**
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | Number | Amount | Reserves | Deficit | Total |
| Balance, December 31, 2012 | 43,613,012 | $ 33,068,647 | $ 569,972 | $ (8,497,840) | $ 25,140,779 |
| Issued for mineral properties (Note 10) | 200,000 | 28,000 | - | - | 28,000 |
| Share-based compensation | - | - | 19,774 | - | 19,774 |
| Reserves transferred on expired options | - | - | (4,560) | 4,560 | - |
| Loss for the year | - | - | - | (3,085,179) | (3,085,179) |
| Balance, December 31, 2013 | 43,813,012 | $ 33,096,647 | $ 585,186 | $ (11,578,459) | $ 22,103,374 |
| | | | | | |
| Balance, December 31, 2011 | 43,213,012 | $ 32,998,647 | $ - | $ (3,066,990) | $ 29,931,657 |
| Issued for mineral properties (Note 10) | 400,000 | 70,000 | - | - | 70,000 |
| Share-based compensation | - | - | 583,651 | - | 583,651 |
| Reserves transferred on expired options | - | - | (13,679) | 13,679 | - |
| Loss for the year | - | - | - | (5,444,529) | (5,444,529) |
| Balance, December 31, 2012 | 43,613,012 | $ 33,068,647 | $ 569,972 | $ (8,497,840) | $ 25,140,779 |

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Independence Gold Corp. ("Independence" or the "Company") was incorporated under the Business Corporation Act (British Columbia) on November 1, 2011 and is considered to be in the exploration stage with respect to its mineral properties. Based on the information available to date, the Company has not yet determined whether its properties contain economically recoverable mineral reserves.

The Company's head office and principal address is 1410 - 650 West Georgia Street, Vancouver, British Columbia, Canada, V6B 4N8. The Company's registered and records office is 2300 - 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2B5.

The recovery of the amounts comprised in mineral properties is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development, and upon future profitable production.

These consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses and has no source of recurring revenue. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. Management believes that the Company has sufficient working capital to maintain its operations for the upcoming fiscal year.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

| | **2013** | **2012** |
|---|---|---|
| Deficit | $ (11,578,459) | $ (8,497,840) |
| Working capital | $ 8,823,040 | $ 11,003,955 |

## 2. BASIS OF PREPARATION

### Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

### Basis of consolidation and Presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

These consolidated financial statements incorporate the financials statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. These consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries (Note 12). All significant intercompany transactions and balances have been eliminated upon consolidation.

## 2. BASIS OF PREPARATION *(continued)*

### Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of mineral properties, valuation of share-based payments, and recognition of deferred tax amounts.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Economic recoverability and probability of future economic benefits of exploration and evaluation costs

Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Valuation of share-based payments

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expect timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Share-based payments**

The Company grants stock options to directors, officers, employees and consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes Option Pricing Model and is recognized over the vesting period of the related options. Consideration paid for the shares on the exercise of stock options is credited to share capital. For vested options that have expired or were cancelled unexercised, the Company reverses the share based payment reserve against the deficit.

**Marketable securities**

Investments in marketable securities have been designated as fair value through profit or loss and are recorded at fair value. Fair value through profit or loss investments are determined by reference to the last bid price on the date of the statement of financial position. Changes in fair value are recognized in profit or loss in the period for which they occur.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less.

**Foreign exchange**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and each of its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

**Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. Cash and cash equivalents, short-term investments, and marketable securities are included in this category.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Receivables and exploration advances and deposits are included in this category.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or 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.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities* - This category consists of liabilities carried at amortized cost using the effective interest method. Accounts payable, accrued liabilities and loan payable are included in this category.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Mineral properties

The Company accounts for its mineral properties as exploration and evaluation assets in accordance with IRFS 6. The Company capitalizes mineral property acquisition costs, which include the cash consideration, option payments under an earn-in arrangement, and the fair value of common shares issued for mineral properties. The acquisition costs are deferred until the property is placed into production, sold or abandoned or determined to be impaired. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The Company expenses to operations all exploration and evaluation costs incurred prior to the determination of economically recoverable reserves. Exploration and evaluation expenditure relates costs incurred for investigation and evaluation of potential mineral reserves and resources, including trenching, exploratory drilling, sampling, mapping, and other activities in searching for ore bodies under the properties, and evaluate the technical and commercial viability of developing mineral properties identified through exploration. Exploration and evaluation expenditures, net of any recoveries, are recorded on a property by property basis.

### Provision for environmental rehabilitation

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

The increase in the provision due to the passage of time is recognized as interest expense.

The Company does not have any significant environmental rehabilitation provisions.

### Impairment of tangible and intangible assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability 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 provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and 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.

### Government assistance

When the Company is entitled to recover mineral exploration tax credits and grants, this government assistance is recognized as a recovery against the related exploration expenditures where there is reasonable assurance of recovery.

### New standards adopted

During the 2013 fiscal year, the Company adopted the following IFRS standards:

- IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Associates and Joint Ventures (all effective January 1, 2013) provide guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of “control” for identifying entities which are to be consolidated.

- IFRS 13, Fair Value Measurement (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

- IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after July 1, 2012) requires that elements of other comprehensive income that may subsequently be recycled through profit and loss be differentiated from those items that will not be recycled.

- IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures (both effective for annual periods beginning on or after January 1, 2013) were revised and reissued to align with the new consolidation guidance.

These new accounting standards had no material impact on the results or financial position of the Company.

FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012 (Expressed in Canadian Dollars)

## 4. SHORT-TERM INVESTMENTS

Short-term investments consist of certain corporate bonds and fixed income securities. Interest is recognized on these investments as it is earned.

## 5. RECEIVABLES

The Company's receivables are as follows:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| GST Receivable | $ 8,542 | $ 189,024 |
| Advances Receivable | 31,422 | 19,685 |
| Total | $ 39,964 | $ 208,709 |

## 6. MARKETABLE SECURITIES

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Lucky Strike Resources Ltd. | $ 17,000 | $ 11,000 |

As at December 31, 2013, the Company holds 200,000 (2012 – 200,000) common shares of Lucky Strike Resources Ltd., a public company listed on the TSX Venture Exchange, that were received pursuant to mineral property option agreements with the Company, at a value of $42,000 (Note 10).

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Trade payables | 17,420 | 450,792 |
| Accrued liabilities | 15,000 | 25,000 |
| Total | $ 32,420 | $ 475,792 |

## 8. LOAN PAYABLE

New Gold Inc. advanced to the Company $1,000,000 by way of an unsecured, non-interest bearing loan due on or before July 31, 2013, upon any warrant exercises, or upon the completion of a financing, whichever comes first.

As at December 31, 2013, the Company had repaid, in full, the $1,000,000 loan payable to New Gold Inc.

## 9. LAND USE DEPOSITS

The Company has provided deposits as security for land use and potential future reclamation work relating to its mineral properties. As at December 31, 2013 a total of $67,000 (2012 - $67,000) had been lodged with the British Columbia Ministry of Energy, Mines & Petroleum Resources.

FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012 (Expressed in Canadian Dollars)

## 10. MINERAL PROPERTIES

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties, and, to the best of its knowledge, title to all of its properties, except as described below, are properly registered and in good standing.

The Company holds interests in various mineral claims located in Canada, the capitalized acquisition costs of which are as follows:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **BRITISH COLUMBIA** | | |
| **3Ts - Taken Property**<br>A 100% interest in certain claims. The property is subject to a sliding scale net smelter returns royalty ("NSR") ranging from 2.0% to 4.0%. The Company may reduce the NSR to 1.0% by paying $2,000,000 per percent. | $ 345,693 | $ 345,693 |
| **3Ts - Tam Property**<br>A 100% interest, subject to a 1.0% NSR, one-half of which may be purchased back for $250,000. | 1,750,979 | 1,750,979 |
| **3Ts - Tsacha Property**<br>A 100% interest in certain claims subject to a 2.0% NSR. | 2,121,788 | 2,121,788 |
| **3Ts - Tommy Lake Property**<br>A 100% interest. | 17,518 | 17,518 |
| **3Ts - BOT Property**<br>A 100% interest, subject to a 1.5% NSR, two-thirds of which may be purchased back for $700,000. | - | - |
| **YUKON** | | |
| **Aspen Property**<br>A 100% interest by staking. During fiscal 2013, the Company wrote-down acqusition costs of $139,518 associated with this property. | $ - | $ 139,518 |
| **Grizzly Property**<br>A 100% interest by staking. During fiscal 2013, the Company wrote-down acqusition costs of $173,873 associated with this property. | - | 173,873 |
| **Boulevard Property**<br>A 100% interest, subject to a 2.0% NSR. To acquire its interest, the Company paid $80,000, issued 400,000 common shares (with an aggregate value of $58,000) and incurred $3,000,000 in exploration expenditures. The Company has the option, at any time on or before July 20, 2016, to buy-back one-quarter of the NSR for $750,000. Upon completion of a 43-101 report with specific resource estimates, the Company will be obligated to issue a further 1,000,000 common shares. | 4,637,528 | 4,569,528 |
| **Henderson Property**<br>A 100% interest by staking. | 1,271,780 | 1,271,780 |
| **CCR (Sizzler) Property**<br>A 100% interest, subject to a 2.0% NSR. The Company has the option, at any time on or before June 29, 2015, to buy-back one-half of the NSR for $1,000,000. Upon completion of a 43-101 report with specific resource estimates, the Company will be obligated to pay an additional $100,000 and issue a further 75,000 common shares. | 533,060 | 533,060 |

FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012 (Expressed in Canadian Dollars)

**10. MINERAL PROPERTIES** *(continued)*

**YUKON** *(continued)*

| | | |
|---|---|---|
| **OTHER PROPERTIES** | | |
| **Tiger Property** | 233,776 | 233,776 |
| A 100% interest, subject to a 2.0% NSR. The Company can buy-back one-half of the NSR for $2,000,000. | | |
| **YCS Property** | 425,237 | 425,237 |
| A 100% interest, subject to a 2.0% NSR. The Company can buy-back one-half of the NSR for $1,000,000. | | |
| **Keno Property** | 27,011 | 27,011 |
| A 100% interest. | | |
| **DAWSON RANGE PROPERTIES** | | |
| The Company holds a 100% interest in the following properties. During fiscal 2013, the Company wrote-down acquisition costs of $543,248 associated with the Battle, Flow, and Sessenta properties. | | |
| **Birdman Property** | 30,206 | 30,206 |
| **Ember Property** | 71,686 | 71,686 |
| **Gemini Property** | 44,967 | 44,967 |
| **Ladue Property** | 327,355 | 327,355 |
| **Matson Property** | 55,283 | 55,283 |
| **Moosehorn Property** | 88,415 | 88,415 |
| **Solo Property** | 358,396 | 358,396 |
| **Solitude Property** | 865,566 | 865,566 |
| **Wolfcreek Property** | 24,761 | 24,761 |
| **Battle Property** | - | 70,647 |
| **Flow Property** | - | 354,253 |
| **Sessenta Property** | - | 118,348 |
| **Total Mineral Properties** | **$ 13,231,005** | **$ 14,019,644** |

During fiscal 2012, the Company wrote-down acquisition costs of $820,150 associated with the Poker, Wit, Timber, Mickey and OGO properties.

FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012 (Expressed in Canadian Dollars)

## 10. MINERAL PROPERTIES *(continued)*

During the year ended December 31, 2013, the Company incurred exploration expenditures as follows:

| | Geology & Geophysics | Field Sampling | Drilling | Land Use & Tenure | Data Evaluation | Reclamation & Safety | Total for the year |
|---|---|---|---|---|---|---|---|
| **BRITISH COLUMBIA** | | | | | | | |
| 3Ts | $ 171,129 | 147,715 | 700,090 | 20,548 | 36,418 | 13,446 | $ 1,089,346 |
| Reconnaissance | 8,754 | 17,154 | - | - | 1,597 | 285 | 27,790 |
| **YUKON** | | | | | | | |
| Aspen & Grizzly | 81 | - | - | - | 459 | - | 540 |
| Boulevard | 6,271 | 7,670 | 419 | 259 | 4,579 | 6,418 | 25,616 |
| Henderson | 1,358 | 331 | - | - | 886 | - | 2,575 |
| Sizzler | 8 | - | - | - | 46 | - | 54 |
| Dawson Range | 8,031 | 8,201 | - | 801 | 6,629 | - | 23,662 |
| Other | 2,772 | 9,491 | - | - | 3,586 | - | 15,849 |
| **ONTARIO** | | | | | | | |
| Reconnaissance | 3,795 | - | - | - | 135 | - | 3,930 |
| **SASKATCHEWAN** | | | | | | | |
| Reconnaissance | 178 | - | - | - | - | - | 178 |
| **ARIZONA** | | | | | | | |
| Reconnaissance | 14,988 | - | - | | 76 | - | 15,064 |
| **NEVADA** | | | | | | | |
| Reconnaissance | 44,009 | - | - | - | 1,164 | - | 45,173 |
| **WISCONSIN** | | | | | | | |
| Reconnaissance | 1,966 | - | - | - | 67 | - | 2,033 |
| | **$ 263,340** | **190,562** | **700,509** | **21,608** | **55,642** | **20,149** | **$ 1,251,810** |

During the year ended December 31, 2012, the Company incurred exploration expenditures as follows:

| | Geology & Geophysics | Field Sampling | Drilling | Land Use & Tenure | Data Evaluation | Reclamation & Safety | Total for the year |
|---|---|---|---|---|---|---|---|
| **BRITISH COLUMBIA** | | | | | | | |
| 3Ts | $ 166,645 | - | 771,376 | 256,931 | 7,150 | 18,964 | $ 1,221,066 |
| **YUKON** | | | | | | | |
| Aspen & Grizzly | 4,914 | 48,480 | - | 14,180 | 6,243 | - | 73,817 |
| Boulevard | 38,281 | 395,152 | 24,723 | 6,649 | 5,978 | 5,197 | 475,980 |
| Prospector Mtn | 11,441 | 3,624 | - | 883 | 1,416 | - | 17,364 |
| Poker | 121 | 1,325 | - | (24) | 411 | - | 1,833 |
| Henderson | 92,883 | 10,493 | 1,195 | 15,887 | 6,792 | - | 127,250 |
| Sizzler | 547 | 994 | - | 150 | 89 | - | 1,780 |
| Other | 24,701 | 259,811 | - | 2,287 | 1,351 | 850 | 289,000 |
| Dawson Range | 52,847 | 708,336 | - | 19,645 | 13,577 | 2,712 | 797,117 |
| | **$ 392,380** | **1,428,215** | **797,294** | **316,588** | **43,007** | **27,723** | **$ 3,005,207** |

FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012 (Expressed in Canadian Dollars)

## 11. COMMITMENTS

The Company entered into an operating lease agreement for its premises expiring in 2015. The minimum annual lease commitment under this lease is as follows:

| | | |
|---|---|---|
| 2014 | $ | 304,127 |
| 2015 | | 304,127 |

The Company entered into a management agreement with a company controlled by a director which requires the Company to pay $21,666 per month for geological consulting, management and administrative services. The agreement contains clauses which provide between 24 and 36 months remuneration should the contract be terminated or certain specified transactions occur.

## 12. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Independence Gold Corp. and its subsidiaries listed in the following table:

| Name of Subsidiary | Country of Incorporation | Ownership | Principal Activity |
|---|---|---|---|
| Golden Pavilion Resources Ltd. | British Columbia, Canada | 100% | Holding company |
| Silver Quest Resources (US) Ltd. | Nevada, USA | 100% | Inactive |

*Key Management Personnel*

Key management personnel includes those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors and corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer.

Compensation paid or payable to key management for services rendered are as follows:

| | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---|---|---|
| Management fees | $ 231,660 | $ 265,279 |
| Geological consulting fees | 189,001 | 189,001 |
| Directors fees | 78,000 | 78,000 |
| Share-based compensation* | 65,257 | 478,776 |
| Total | **$ 563,918** | **$ 1,011,056** |

* *Share-based compensation consists of options granted to key management. The value shown above is calculated using the Black-Scholes option pricing model and does not represent actual amounts received.*

Included in receivables at December 31, 2013 is $28,996 (December 31, 2012 - $19,542) due from companies with directors and/or officers in common. Included in accounts payable and accrued liabilities at December 31, 2013 is $1,365 (December 31, 2012 - $37,589) due to directors and companies with directors and/or officers in common.

FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012 (Expressed in Canadian Dollars)

## 13. SHARE CAPITAL AND RESERVES

a) Authorized share capital

The authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares are fully paid.

b) Issued share capital

During the year ended, December 31, 2013, the Company issued 200,000 common shares with a fair value of $28,000 as consideration towards the Boulevard property (Note 10).

During the year ended, December 31, 2012, the Company issued 400,000 common shares with a fair value of $70,000 as consideration towards the acquisition of the CCR (Sizzler) and Boulevard properties.

c) Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to directors and employees to acquire up to 10% of the Company's issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 10 years and vesting periods are determined by the Board of Directors.

As at December 31, 2013, the Company had outstanding stock options, enabling the holders to acquire further common shares as follows:

| Number of Shares | Exercise Price | Expiry Date |
|---|---|---|
| 3,100,000 | $ 0.20 | March 1, 2017 |
| 1,005,000 | $ 0.20 | November 7, 2018 |
| **4,105,000** | | |

Stock option transactions are summarized as follows:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Balance, beginning of year | 3,125,000 | $0.35 | - | - |
| Effects of re-pricing | (3,125,000) | (0.35) | | |
| Effects of re-pricing | 3,125,000 | 0.20 | | |
| Granted | 1,005,000 | 0.20 | 3,200,000 | $0.35 |
| Exercised | - | - | - | - |
| Expired/cancelled | (25,000) | 0.20 | (75,000) | 0.35 |
| Balance, end of year | 4,105,000 | $ 0.20 | 3,125,000 | $ 0.35 |
| Options exercisable, end of year | **4,105,000** | **$ 0.20** | **3,125,000** | **$ 0.35** |

FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012 (Expressed in Canadian Dollars)

## 13. SHARE CAPITAL AND RESERVES *(continued)*

d) Share-based compensation

During the year ended December 31, 2013, the Company granted 1,005,000 (2012 - 3,200,000) stock options with a fair value of $87,445 (2012 - $583,651) or $0.09 (2012 - $0.18) per option. All options vest immediately on grant.

During fiscal 2013, the Company's shareholders approved a re-pricing of the March 1, 2012 stock options from $0.35 to $0.20. The re-pricing did not result in a change to fair value.

The following weighted-average assumptions were used for the Black-Scholes valuation of stock options granted during the noted years:

| | **2013** | **2012** |
|---|---|---|
| Risk-free interest rate | 1.76% | 1.45% |
| Expected life of options | 5 years | 5 years |
| Annualized volatility | 108.65% | 75% |
| Dividend rate | - | - |
| Weighted average FV | $0.09 | $0.18 |

e) Warrants

As at December 31, 2013 the Company had no outstanding share purchase warrants.

Share purchase warrant transactions were as follows:

| | **December 31, 2013** | | **December 31, 2012** | |
|---|---|---|---|---|
| | **Number of Warrants** | **Weighted Average Exercise Price** | **Number of Warrants** | **Weighted Average Exercise Price** |
| Balance, beginning of year | 1,467,322 | $ 0.77 | 1,695,766 | $ 0.72 |
| Exercised | - | - | - | - |
| Expired/cancelled | (1,467,322) | 0.77 | (228,444) | 0.45 |
| Balance, end of year | - | - | 1,467,322 | $ 0.77 |

## 14. SEGMENT INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration, and evaluation of mineral properties in North America. All of the Company's capital assets are located in Canada.

## 15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions during the year ended December 31, 2013 consisted of:

a) The issuance of 200,000 shares, with a fair value of $28,000 as consideration towards the acquisition of mineral properties (Note 10).
b) Transfer of reserves on expired/cancelled options of $4,560.

Significant non-cash investing and financing transactions during the year ended December 31, 2012 consisted of:

a) The receipt of 100,000 common shares, with a fair value of $21,000, as consideration from an option agreement on the Aspen property in the Yukon (Note 10);
b) The receipt of 100,000 common shares, with a fair value of $21,000, as consideration from an option agreement on the Grizzly property in the Yukon (Note 10);
c) The issuance of 400,000 shares, with a fair value of $70,000 as consideration towards the acquisition of mineral properties (Note 10).
d) Transfer of reserves on expired/cancelled options of $13,679.

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of cash and cash equivalents, short-term investments, and marketable securities are measured based on level 1 of the fair value hierarchy. The fair values of receivables, exploration advances and deposits, accounts payable and accrued liabilities and loan payable approximate their book values because of the short-term nature of these instruments.

The Company is exposed to a variety of financial risks by virtue of its activities, including credit risk, interest rate risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by management under the direction and guidance of the Board of Directors. Management is responsible for establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

*Credit risk* - Credit risk is the risk of a financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligation. The Company manages credit risk by carrying short-term investments with investment grade ratings. The Company's cash and cash equivalents are invested in interest bearing accounts at major Canadian financial institutions. Because of these circumstances, the Company does not believe it has a material exposure to credit risk.

*Interest rate risk* - Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The risk that the Company will realize a loss in cash is limited because the Company's deposits and short-term investments are redeemable on demand.

*Liquidity risk* - Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances, asset sales or a combination thereof. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments

*Price risk* - The Company is exposed to price risk with respect to commodity, equity, and marketable security prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012 (Expressed in Canadian Dollars)

## 17. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as the components of shareholders equity.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. In addition, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

## 18. INCOME TAXES

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

| | 2013 | 2012 |
|---|---|---|
| Income (loss) before income taxes | $ (3,085,179) | $ (5,449,529) |
| Expected income tax (recovery) | $ (794,000) | $ (1,362,000) |
| Impact of investment tax credit | (45,000) | (185,000) |
| Non-deductible expenses and permanent differences | 242,000 | 355,000 |
| Changes in unrecognized deductible temporary differences | 596,000 | 1,192,000 |
| Change in statutory tax rates and other | 1,000 | - |
| Income tax (expense) recovery | $ - | $ - |

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

The significant components of the Company’s temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

| | 2013 | Expiry | 2012 |
|---|---|---|---|
| Equipment | $ 21,000 | not applicable | $ 21,000 |
| Investment tax credit | 306,000 | 2032 to 2033 | 246,000 |
| Mineral properties | 4,257,000 | not applicable | 3,005,000 |
| Non-capital losses available for future periods | 1,900,000 | 2032 to 2033 | 1,010,000 |
| Marketable securities | 25,000 | not applicable | 31,000 |

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