

ELISSA RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2014

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ELISSA RESOURCES LTD.

We have audited the accompanying consolidated financial statements of Elissa Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation 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, the consolidated financial statements present fairly, in all material respects, the financial position of Elissa Resources Ltd. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
March 5, 2015

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ELISSA RESOURCES LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT DECEMBER 31

	2014	2013
ASSETS		
Current		
Cash	$ 163,825	$ 775,442
Accounts receivable	5,912	13,422
Prepaid expenses and deposits	21,300	20,327
	191,037	809,191
Deposits (Note 10)	33,544	33,544
Investment (Note 4)	110,000	-
Reclamation deposits (Note 5)	22,973	52,479
Resource properties (Note 5)	1,861,319	1,725,854
Equipment (Note 6)	-	31,383
	$ 2,218,873	$ 2,652,451
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	$ 69,079	$ 50,327
Shareholders' equity		
Share capital (Note 7)	4,716,779	4,709,279
Obligation to issue shares (Note 4)	10,000	-
Reserve (Note 7)	301,780	312,609
Accumulated other comprehensive income	234,430	70,513
Deficit	(3,113,195)	(2,490,277)
	2,149,794	2,602,124
	$ 2,218,873	$ 2,652,451

Subsequent event (Note 14)

Approved and authorized by the Board on March 5, 2015

"G.A. Armstrong" Director *"Paul McKenzie"* Director

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

ELISSA RESOURCES LTD.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31

	2014	2013
EXPENSES		
Advertising and promotion	$ 7,176	$ 7,799
Bank charges and interest	1,216	1,173
Consulting fees	18,567	37,379
Depreciation (Note 6)	3,391	7,857
Directors' fees	-	54,382
Insurance	21,100	22,847
Management fees (Note 8)	84,000	84,000
Office and administration (Note 8)	74,007	87,471
Professional fees (Note 8)	118,676	92,991
Salaries	106,391	135,788
Shareholder communications and filings	51,612	37,425
Travel	17,428	22,519
	(503,564)	(591,631)
OTHER INCOME (EXPENSES)		
Interest income	2,719	11,522
Equipment written off (Note 6)	(30,616)	-
Resource properties written off (Note 5)	(102,286)	(404,863)
Loss before income tax	(633,747)	(984,972)
Income tax recovery (Note 9)	-	(14,734)
Net loss for the year	(633,747)	(970,238)
OTHER COMPREHENSIVE INCOME		
Item that may be reclassified subsequently to profit or loss		
Foreign exchange gain on translating foreign operations	163,917	123,165
Comprehensive loss for the year	$ (469,830)	$ (847,073)
Basic and diluted loss per common share	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding	32,047,983	31,805,517

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

ELISSA RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (633,747)	$ (970,238)
Non-cash items:		
Depreciation	3,391	7,857
Unrealized foreign exchange loss	-	175
Equipment written off	30,616	-
Resource properties written off	102,286	404,863
Changes in non-cash working capital items:		
Accounts receivable and accrued interest	7,510	31,277
Income tax receivable	-	123,463
Prepaid expenses and deposits	(855)	1,854
Deposits	-	(33,544)
Accounts payable and accrued liabilities	18,270	3,056
	(472,529)	(431,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment	(100,000)	-
Purchase of equipment	(2,500)	(1,191)
Reclamation deposit	32,663	-
Expenditures on resource properties	(70,723)	(128,558)
	(140,560)	(129,749)
Effect of exchange rate changes on cash	1,472	2,065
Change in cash during the year	(611,617)	(558,921)
Cash, beginning of year	775,442	1,334,363
Cash, end of year	$ 163,825	$ 775,442
Supplementary cash flow information:		
Non-cash transactions:		
Shares issued for resource properties	$ 7,500	$ -
Shares issued for finder's fees	10,000	-

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

ELISSA RESOURCES LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Share capital						
	Number	Amount	Obligation to Issue Shares	Reserve	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance, December 31, 2012	31,805,517	$ 4,709,279	$ -	$ 347,209	$ (52,652)	$ (1,554,639)	$ 3,449,197
Expiry of stock options	-	-	-	(34,600)	-	34,600	-
Comprehensive loss for the year	-	-	-	-	123,165	(970,238)	(847,073)
Balance, December 31, 2013	31,805,517	4,709,279	-	312,609	70,513	(2,490,277)	2,602,124
Shares issued for resource properties (Note 5)	300,000	7,500	-	-	-	-	7,500
Shares issue for finder's fees (Note 4)	-	-	10,000	-	-	-	10,000
Expiry of stock options	-	-	-	(10,829)	-	10,829	-
Comprehensive loss for the year	-	-	-	-	163,917	(633,747)	(469,830)
Balance, December 31, 2014	32,105,517	$ 4,716,779	$ 10,000	$ 301,780	$ 234,430	$ (3,113,195)	$ 2,149,794

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Elissa Resources Ltd. and its subsidiaries (collectively, the "Company" or "Elissa") is an exploration stage company. Its principal business activity is the acquisition, exploration and development of resource properties, principally in the United States. Elissa was incorporated under the *Company Act* (British Columbia) on October 11, 2007 under the name Elissa Energy Inc. On February 5, 2010, the Company changed its name to Elissa Resources Ltd. The Company maintains its registered office at 2080 – 777 Hornby Street, Vancouver, British Columbia, Canada V6Z 1S4.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of its resource properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. The Company reported a net loss of $633,747 (2013 - $970,238) for the year ended December 31, 2014 and had an accumulated deficit of $3,113,195 (2013 - $2,490,277) as at December 31, 2014. These circumstances may cast significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The recovery of amounts capitalized for exploration and evaluation assets at December 31, 2014 in the consolidated statement of financial position is dependent upon the ability of the Company to arrange appropriate financing to complete the development and continued exploration of the properties and upon future profitable production or proceeds from their disposition.

The Company's ability to continue as a going concern is dependent upon its ability to raise funds primarily through the issuance of shares or obtain profitable operations. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management may be required to curtail certain discretionary expenses.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The accounting policies set out in Note 3 have been applied consistently by the Company and its subsidiaries to all periods presented.

Use of judgments and estimates

The preparation of these consolidated financial statements 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 expenses during the period. Actual results could differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. BASIS OF PREPARATION (cont'd…)

Use of judgments and estimates (cont'd…)

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The recoverability of the carrying value of the Company's investment

  The fair value of the Company's investment (Note 4) requires management to determine whether there are any indications of impairment. Management evaluates the legal standing of the underlying assets of the investment and reviews the progress and development of the underlying assets in the period when making the assessment of whether there are indications of impairment for the investment.

- The carrying value of resource properties and the recoverability of the carrying value

  Assets or cash-generating units ("CGUs") are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's resource properties.

  Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, economic assessments/studies, accessible facilities and existing permits.

- The determination of the Company's functional currency

  The functional currency of the Company and its subsidiaries is the currency of the primary economic environment, and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

The key estimates applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is the provision for income taxes and recognition of deferred income tax assets and liabilities and fair value of the Company's investment (Note 4), which requires management to make certain estimates regarding the value of those shares in relation to unquoted share prices (Note 12).

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Red Hill Energy (US) Inc. ("Red Hill") and 0875514 BC Ltd. ("0875514"). All material intercompany transactions have been eliminated upon consolidation. A subsidiary is an entity over which the Company has control, where control indicates exposure or rights to variable returns and the ability to affect those returns through power over the investee.

Currency translation

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with the indicators as per International Accounting Standards ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates* and should be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and 0875514 is the Canadian dollar, the US subsidiary's functional currency is the US dollar. The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Currency translation (cont'd…)

Under IFRS, the results and financial position of all the Company's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- income and expenses for each consolidated statement of loss and comprehensive loss are translated at average exchange rates (unless this 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 date of the transaction); and
- all resulting exchange differences are recognized as a separate component of equity.

Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through income. Cash is included in this category of financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables are comprised of accrued interest.

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. The Company's investment is included in this category of financial assets.

Financial liabilities

The Company classifies its financial liabilities in the following category:

Borrowings and other financial liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the income statement over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

Equipment

Equipment is recorded at cost less accumulated depreciation, with depreciation calculated on a declining-balance basis at an annual rate of 20%.

Additions during the year are depreciated at one-half the annual rate.

Resource properties

Costs directly related to the acquisition, exploration and evaluation of resource properties are capitalized once the legal rights to explore the resource properties are acquired or obtained. When the technical and commercial viability of a mineral resource has been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the unit-of-production method on commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee, and accordingly, are recorded as mineral property costs or recoveries when the payments are made or received. After costs are recovered, the balance of the payments received is recorded as a gain on option or disposition of mineral property.

Provision for closure and reclamation

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of resource 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment of non-current 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 CGU to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Share-based payments

The Company has a stock option plan that is described in Note 7(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from reserve. For those unexercised options that expire, the recorded value is transferred to deficit.

Loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of shares outstanding in the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share, as the effects of including all outstanding options and warrants would be anti-dilutive.

Capital stock

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

Shares issued as consideration for goods or services are measured at the fair value of the goods or services received, except where the fair value cannot be measured reliably, in which case they are measured at the fair value of the equity instruments granted.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry-forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is possible that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

New standards, interpretations and amendments adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014.

The following new standards, amendments to standards and interpretations have been issued and have been adopted for the fiscal year beginning January 1, 2014:

- IAS 32 (Amendment) — New standard that clarifies requirements for offsetting financial assets and financial liabilities.
- IAS 36 (Amendment) — This amendment addresses the disclosure of information regarding the recoverable amount of impairment assets as the amount is based on fair value less costs of disposal.
- IFRIC 21 — This is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. 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, known as an obligating event. The interpretation clarifies that the obligation 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.

The application of these standards, amendments and interpretations has not had a material impact on the results and financial position of the Company.

New standards not yet adopted

IFRS 9 *Financial Instruments* (Revised)

IFRS 9 was issued by the IASB in October 2010. It incorporates revised requirements for the classification and measurement of financial liabilities and carrying over the existing derecognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Company's consolidated financial statements has not yet been determined.

4. INVESTMENT

During the year ended December 31, 2014, the Company entered into a Letter of Intent ("LOI") with Spectrum Optix Inc. ("Spectrum"), a private technology development company. Pursuant to the LOI, the Company has been granted an option to acquire up to a 100% interest in Spectrum, as follows:

First Option: the Company has the right to acquire a 6.6% interest in Spectrum in exchange of the payment of $200,000, of which the Company has paid $100,000 and earned a 3.3% interest in Spectrum;

Second Option: Upon exercise of the First Option, the Company has the right to acquire a further 28.4% interest in Spectrum, for an aggregate interest of 35%, in exchange of the advancement of $2,800,000 towards the development of Spectrum's lens technologies over a three year period commencing on the date of the LOI; and

Third Option: Upon exercise of the Second Option, the Company has the right to acquire the remaining interest in Spectrum, for an aggregate interest of 100% in exchange for the issuance by the Company of such number of common shares as equals 35% of the issued and outstanding shares of the Company and such number of conditional warrants to acquire common shares of the Company as equals 35% of the warrants and options then outstanding in the Company.

Following the exercise of the First Option, should the Company wish to continue to pursue the acquisition of Spectrum, the pursuit of the exercise of the Second Option will be considered a Change of Business ("COB") in accordance with the policies of the TSX Venture Exchange and the Company's shares may be halted in accordance with same. The Company will provide an update once it has reached a definitive determination to proceed with the Second Option.

In connection with the LOI, the Company signed a finder's fee agreement payable as to:

a) $10,000 at the time the Company purchases a 3.3% interest payable in shares (recorded as obligation to issue shares as at December 31, 2014 and issued subsequent to year-end);

b) $10,000 upon the acquisition of a cumulative 6.6% interest payable in shares; and

c) 5% of the number of common shares of the Company issued pursuant to the Third Option; 50% of this portion will be payable in shares and 50% payable in cash, such payment not to exceed $200,000 in cash and $300,000 value in common shares.

5. EXPLORATION AND EVALUATION ASSETS

December 31, 2014	Thor REE	South Standby	Total
Balance, December 31, 2013	$ 1,666,408	$ 59,446	$ 1,725,854
Acquisition costs	-	40,576	40,576
Exploration expenditures			
Geological consulting	3,257	-	3,257
Staking and maintenance fees	20,978	-	20,978
Reclamation costs	13,412	-	13,412
Total addition of exploration expenditures	37,647	-	37,647
Foreign exchange on translation	157,264	2,264	159,528
Write-off of property	-	(102,286)	(102,286)
Property total, December 31, 2014	$ 1,861,319	$ -	$ 1,861,319

5. EXPLORATION AND EVALUATION ASSETS (cont'd…)

December 31, 2013	Thor REE	South Standby	Idaho	Total
Balance, December 31, 2012	$ 1,493,492	$ -	$ 390,869	$ 1,884,361
Exploration expenditures				
Assay and petrographic	2,553	-	-	2,553
Geological consulting	3,390	-	-	3,390
Geophysics survey	30,568	-	-	30,568
Staking and maintenance fees	33,276	59,446	-	92,722
Total addition of exploration expenditures	69,787	59,446	-	129,233
Foreign exchange on translation	103,129	-	13,994	117,123
Write-off of property	-	-	(404,863)	(404,863)
Property total, December 31, 2013	$ 1,666,408	$ 59,446	$ -	$ 1,725,854

Title to resource properties

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Realization of assets

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims are allowed to lapse.

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the resource properties, the potential for production on the property may be diminished or negated.

Thor REE Property

On December 15, 2009, Red Hill agreed to acquire the Thor REE Property located in southwestern Nevada. In consideration for a 100% interest in the property, Red Hill paid $15,000 and issued 350,000 common shares of Red Hill, assigned a fair value of $140,000. The Company has provided a deposit as security against potential future reclamation work relating to its Thor REE Property. As at December 31, 2014, a total of US $19,758 (2013 - US $49,341) has been lodged with the Nevada Bureau of Land Management.

5. EXPLORATION AND EVALUATION ASSETS (cont'd…)

South Standby Property

During the year ended December 31, 2013, the Company staked mineral exploration property in South Dakota.

During the year ended December 31, 2014, the Company entered into an option agreement for certain mining claims located in South Dakota. Under the terms of the agreement, payments will be made in accordance with the following schedule:

a) 300,000 common shares (issued at a fair value of $7,500) and US $30,000 (paid) at the signing of the agreement;
b) US $35,000 on the first anniversary;
c) US $45,000 on the second anniversary;
d) US $60,000 on the third anniversary; and
e) 500,000 common shares on the fourth anniversary.

A 2.5% net smelter returns royalty is payable to the owners on commercial production.

During the year ended December 31, 2014, the Company decided not to pursue its South Standby property and the project was written off.

Idaho Property

During the year ended December 31, 2011, the Company staked prospective land in the Idaho/Montana border area.

During the year ended December 31, 2013, the Company decided not to pursue its Idaho property and the project was written off.

6. EQUIPMENT

		Total
Cost		
Balance, December 31, 2012	$	52,374
Additions for the year		1,191
Cumulative translation adjustment		289
Balance, December 31, 2013		53,854
Additions for the year		2,500
Cumulative translation adjustment		172
Write-off of equipment		(56,526)
Balance, December 31, 2014	$	-
Accumulated depreciation		
Balance, December 31, 2012	$	14,560
Additions for the year		7,857
Cumulative translation adjustment		54
Balance, December 31, 2013		22,471
Additions for the year		3,391
Cumulative translation adjustment		48
Write-off of equipment		(25,910)
Balance, December 31, 2014	$	-
Net book value		
As at December 31, 2013	$	31,383
As at December 31, 2014	$	-

7. SHARE CAPITAL AND RESERVE

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued share capital

The Company did not complete any private placements in the years ended December 31, 2014 and 2013.

c) Stock options

The Company has a stock option plan (the "Plan") in place that allows for the reservation of common shares issuable under the Plan to a maximum of 10% of the number of issued and outstanding common shares of the Company at any given time. The exercise price of each option is required to be set at the closing price of the Company's common shares on the trading day prior to the date of grant.

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2012	2,910,000	$ 0.16
Expired	(325,000)	$ 0.16
Balance, December 31, 2013	2,585,000	$ 0.16
Expired	(60,000)	$ 0.34
Balance outstanding and exercisable, December 31, 2014	2,525,000	$ 0.15

Stock options outstanding as at December 31, 2014:

	Number	Exercise price	Expiry date
Stock Options	1,575,000	$ 0.10	October 7, 2015
	525,000	0.27	April 19, 2016
	325,000	0.21	January 6, 2017
	100,000	0.21	February 1, 2017
	2,525,000		

As at December 31, 2014, the outstanding stock options had a weighted average remaining life of 1.09 (2013 - 2.09) years.

d) Warrants

Warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2012	15,064,750	$ 0.30
Expired	(2,800,000)	$ 0.30
Balance, December 31, 2013 and 2014	12,264,750	$ 0.30

7. SHARE CAPITAL AND RESERVE (cont'd…)

d) Warrants (cont'd…)

Warrants outstanding as at December 31, 2014:

	Number	Exercise price	Expiry date
Warrants	12,264,750	$ 0.30	March 4, 2016[(1)]

(1) During the year ended December 31, 2013, the Company amended the terms of the warrants issued on March 28, 2011 as part of a private placement. The amendment extends the expiration date of the warrants from March 4, 2013 to March 4, 2016.

8. RELATED PARTY TRANSACTIONS

Management Compensation

Key management personnel comprise the Chief Executive Officer and directors of the Company. The remuneration of the key management personnel is as follows:

		2014		2013
Payments to key management personnel:				
Salaries and short-term benefits	$	103,101	$	150,382

During the year ended December 31, 2014, the Company paid directors' fees of $Nil (2013 - $54,382) to board members.

During the year ended December 31, 2014, the Company was charged management fees of $84,000 (2013 - $84,000), accounting fees of $48,000 (2013 - $48,000) and rent of $660 (2013 - $60,660) by a company controlled by a director and officer of the Company. As at December 31, 2014, the amount owed to that company was $12,078 (2013 - $12,178). The amount due to the related party has no specific terms of repayment, is unsecured and non-interest-bearing.

During the year ended December 31, 2014, the Company was charged legal fees of $44,468 (2013 - $16,039) by S. Paul Simpson Law Corp., a law firm of which an officer of the Company is an employee.

During the year ended December 31, 2014, the Company was charged accounting fees of $2,515 (2013 - $Nil) by a company of which the CFO is a significant shareholder.

As at December 31, 2014, the amount of $48,265 (2013 - $Nil) included in accounts payable is due to related parties. All balances are unsecured, non-interest-bearing, have no fixed repayment terms and are due on demand.

9. INCOME TAXES

Effective April 1, 2013, the British Columbia provincial tax increased from 10.00% to 11.00%. The overall increase in tax rates has resulted in an increase in the Company's statutory tax rate from 25.75% to 26.00%.

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.00% (2013 - 25.75%) to income before income taxes. The reasons for the differences are as follows:

	2014	2013
Income before income tax	$ (633,747)	$ (984,972)
Statutory income tax rate	26.00%	25.75%
Income tax expense computed at Canadian statutory rates	(164,774)	(253,630)
Items not deductible for tax purposes	422	541
Differences between Canadian and foreign tax rates	(3,249)	(7,341)
Change in timing differences	(9,603)	(33,968)
Effect of change in tax rates	-	(1,215)
Under-provided in prior periods	-	(14,734)
Unused tax losses and tax offsets not recognized in tax assets	177,204	295,613
Income tax recovery	$ -	$ (14,734)

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2014	2013
Non-capital losses	$ 2,050,089	$ 1,511,380
Resource properties	1,373,775	1,185,925
Equipment	55,918	21,822
Share issue costs	9,210	18,421
Unrecognized deductible temporary differences	$ 3,488,992	$ 2,737,548

As at December 31, 2014, the Company has US non-capital losses of $312,241 and Canadian non-capital losses of $1,737,848 that may be applied to reduce future taxable income. If these losses are not used to offset future income, they will expire through the year ended December 31, 2034.

10. COMMITMENTS

The Company has a lease agreement for office space. A total of $33,544 has been classified as deposits in the consolidated statements of financial position.

The approximate annual minimum lease commitments are as follows:

	Total
2015	$ 44,187
2016	45,526
2017	46,865
2018	50,770
	$ 187,348

11. SEGMENTED INFORMATION

The Company operates in one industry segment, the mineral exploration industry. Geographic segmentation of the Company's long term assets are as follows:

December 31, 2014	USA	Canada	Total
Deposits	$ -	$ 33,544	$ 33,544
Reclamation deposit	22,973	-	22,973
Resource properties	1,861,319	-	1,861,319
	$ 1,884,292	$ 33,544	$ 1,917,836

December 31, 2013	USA	Canada	Total
Deposits	$ -	$ 33,544	$ 33,544
Reclamation deposit	52,479	-	52,479
Equipment	3,243	28,140	31,383
Resource properties	1,725,854	-	1,725,854
	$ 1,781,576	$ 61,684	$ 1,843,260

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Cash is carried in the consolidated statements of financial position at fair value using a Level 1 fair value measurement. Receivables, accounts payable and accrued liabilities are carried at amortized cost. The Company considers that the carrying amount of these financial assets and liabilities measured at amortized cost to approximate their fair value due to the short term nature of the financial instruments.

The Company's investment in Spectrum is valued using a Level 3 fair value measurement. The Company evaluates the fair value of the investment in the equity of Spectrum by reference to recent equity placements in Spectrum, based on negotiated prices between the Company and Spectrum, an unrelated party, and by evaluating the fair value changes relative to changes in Spectrum's net assets.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with a high-credit quality financial institution.

Receivables mainly consist of Goods and Services Tax ("GST") receivable from the Government of Canada. The Company believes that the credit risk concentration with respect to receivables is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2014, the Company had a working capital of $121,958 (2013 - $758,864). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

Financial risk factors (cont'd…)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial asset exposed to interest rate risk consists of cash. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management believes the interest rate risk is low given the current low global interest rate environment.

b) Foreign currency risk

The Company's property development and exploration work occurs in the USA in US dollars. As such, the Company is exposed to foreign currency risk in fluctuations. Fluctuations in the exchange rate between the Canadian dollar and US dollar may have a material adverse effect on the Company's business and financial condition.

As at December 31, 2014, the Company's net foreign denominated financial assets are as follows:

	Foreign currency	Canadian dollar equivalent
US Dollar	$ 22,770	$ 26,475

Based on the above, assuming all other variables remain constant, a 5% weakening or strengthening of the Canadian dollar against the US dollar would result in an increase/decrease of approximately $1,324 (2013 - $2,516) in the Company's net loss.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. The Company closely monitors commodity prices to determine the appropriate strategic action to be taken by the Company.

13. CAPITAL MANAGEMENT

The Company's capital management policy is to maintain a strong but flexible capital structure that optimizes the cost of capital, creditor and market confidence while sustaining the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Company's capital structure includes shareholders' equity of $2,149,794 (2013 - $2,602,124). In order to maintain or adjust the capital structure, the Company may from time to time issue shares, seek additional debt financing and adjust its capital spending to manage current and working capital requirements. The Company is not subject to externally imposed capital requirements.

There were no changes to the Company's approach to capital management during the year ended December 31, 2014.

14. SUBSEQUENT EVENT

Subsequent to December 31, 2014, the Company issued 200,000 common shares as finders' fees with respect to the investment in Spectrum, which were recorded as an obligation to issue shares as at December 31, 2014.