SUNRIDGE GOLD CORP

ANNUAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2014

(Expressed in Canadian dollars)

SUNRIDGE GOLD CORP

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2014

Management Discussion and Analysis
For the year ended August 31, 2014

The following management discussion and analysis ("MD&A") of the results of operations and financial condition of Sunridge Gold Corp. (the "Company" or "Sunridge") should be read in conjunction with the accompanying audited consolidated financial statements and related notes thereto for the years ended August 31, 2014 and 2013 (the "Financial Report").

The financial information in this MD&A is derived from the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

This MD&A contains information as at December 17, 2014, except as indicated.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

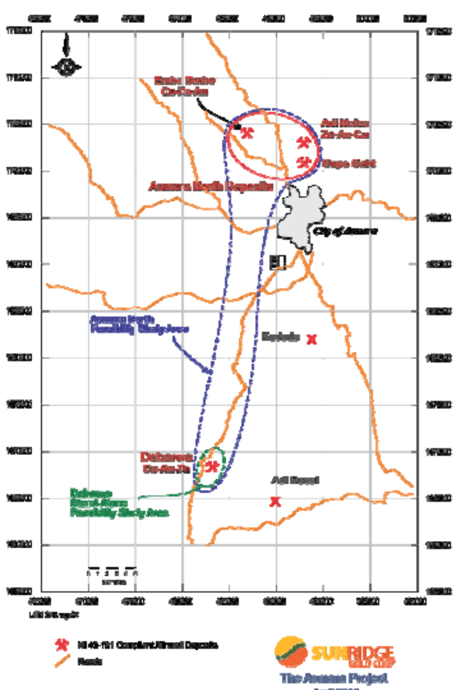
Description of the Business

Sunridge is incorporated under the laws of the Province of British Columbia and is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol SGC and on the OTCQX market place under the symbol SGCNF.

The Company is engaged in the exploration and development of its Asmara Project in Eritrea through it 60% interest in Asmara Mining Share Company ("AMSC").

Overall Performance

Highlights of the work conducted in the year ended August 31, 2014, and up to the date of this MD&A can be summarized as follows:



- Executed a shareholders' agreement with ENAMCO for the formation and governance of AMSC, the entity that will own and operate the Asmara Project
- Sold a 40% interest in AMSC to ENAMCO for US$18.33 million (US$5 million received). In addition, ENAMCO agreed to fund the first approx. US$6 million of expenditures on the Asmara Project to be funded directly to AMSC
- Filed an updated Feasibility Study in which the values for the Asmara Project Base Case financial model have increased the post-tax net present value from US$345 million to US$428 million
- Raised gross proceeds of $5,750,000 through the issuance of 30,263,159 units pursuant to a private placement

The Asmara Project

The Company holds three exploration licenses in Eritrea that comprise the Asmara Project: the Medrizien exploration license on which the Emba Derho and Kodadu deposits are located; the Debarwa exploration license on which the Debarwa and Adi Rassi deposits are located; and the Adi Nefas exploration license on which the Adi Nefas and Gupo deposits are located. The Debarwa and Adi Rassi deposits are on the southern part of the licenses. The Emba Derho, Adi Nefas and Gupo deposits are grouped towards the northern part of the exploration licenses with the Kodadu deposit located approximately midway between the northern and southern deposits (see map above). The exploration licenses are subject to historical underlying agreements: Albert J. Perry holds a 2% net profits interest on all three licenses; and WMC (Overseas) Pty Limited will be entitled to the first US$860,000 of revenue derived from the sale of any minerals mined from the Debarwa license. These historical underlying agreements are against the Company's 60% interest in AMSC.

In September 2014, the renewal dates for all three exploration licenses that make up the Asmara Project were extended to May 21, 2015.

Asmara Mining Share Company

On June 27, 2014, the Company and the Eritrean National Mining Corporation ("ENAMCO") executed a shareholders' agreement (the "Shareholders' Agreement") to organize and operate Asmara Mining Share Company ("AMSC"), the operating entity that will own and operate the Asmara Project in Eritrea. AMSC is owned 60% by Sunridge and 40% by ENAMCO (30% participating and 10% free carried interest) and has a board of directors of five, comprising three from Sunridge and two from ENAMCO.

Pursuant to the Shareholders' Agreement, the Company sold a 40% interest in AMSC to ENAMCO for US$18,330,000 (the "Purchase Price"). In addition, ENAMCO agreed to fund the first $6,517,563 (US$6,108,306) of expenditures on the Asmara Project (the "Contribution Payable"). Subsequently, all future project development or exploration costs will be shared two-thirds Sunridge and one-third ENAMCO.

Payment of the Purchase Price shall be made as follows:

- US$2,000,000 on signing the Shareholders' Agreement
- US$1,000,000 by September 30, 2014
- US$1,000,000 by October 30, 2014
- US$1,000,000 by November 30, 2014

The $5,335,000 (US$5,000,000) was recorded as due from non-controlling interest on the date of sale. In July 2014, the Company received $2,158,850 (US$2,000,000) of this amount and subsequent to year-end the Company received the balance of US$3,000,000.

The balance of the Purchase Price (US$13,330,000) will be paid in installments beginning upon signing a finance agreement that secures a significant portion of the financing required to develop the Asmara Project (the "Financing Agreement"):

- US$6,000,000 on signing the Financing Agreement
- US$4,000,000 6 months after signing the Financing Agreement
- US$3,330,000 12 months after signing the Financing Agreement

The balance of US$13,330,000 has not been recorded in the consolidated financial statements as collectability is contingent on a Financing Agreement for which the terms and timing are uncertain.

From the date of execution of the Shareholders Agreement until payment of the Purchase Price is made in full, ENAMCO shall pay interest to the Company at a rate of LIBOR plus 3%. Interest income due from ENAMCO as at August 31, 2014 is $18,103. All interest income was received subsequent to year-end.

The Contribution Payable is expected to be contributed to AMSC during fiscal 2015. The Company's 60% benefit of this Contribution Payable is $3,910,538 (US$3,664,984) and this is considered to be part of the consideration received by Sunridge for its 40% sale of AMSC.

Feasibility Study (the "Study")

On August 21, 2013, the Company filed an amended National Instrument 43-101 ("NI 43-101") compliant technical report supporting the independent feasibility study (the "Study") for its Asmara Project in Eritrea. The Study demonstrates that the mining of four of the six deposits that make up the Asmara Project (Emba Derho, Adi Nefas, Gupo Gold and Debarwa) and processing of the ore near the large Emba Derho deposit is economically robust with a pre-tax net present value ("NPV") of US$692 million and a post-tax NPV of US$345 million using a 10% discount rate.

On March 27, 2014, the Company announced that it had received updated values from the financial model for the Study which increased the Base Case post-tax NPV from US$345 million to US$428 million. The increased numbers are based on the Company receiving clarity on the tax laws of Eritrea, specifically the application of historic expenditures and depreciation in the financial model. The pre-tax value of US$692 million for the Study remains unchanged. An amended Asmara Feasibility Technical Report which incorporates the updated application of Eritrean tax laws was completed by lead engineering company SENET with support from Snowden Mining Industry Consultants Inc. on resource estimation, mine design, mine planning and economic modeling in addition to work by Knight Piésold Ltd. on water and waste management design. Blue Coast Metallurgy Ltd. directed metallurgical test-work. The amended report was filed on April 29, 2014.

The Study outlines a three-phase start-up mining operation which would initiate production in 2015 starting with high-grade copper and gold direct shipping ore ("DSO") production from the Debarwa deposit and heap-leaching of near surface gold oxide mineralization, followed by supergene copper production, then zinc and copper at a full production rate of 4 million tonnes per year. At full production, the mine will produce an average annual production of 65 million lbs (29,000 t) copper, 184 million lbs. (83,000 t) zinc, 42,000 oz gold, and 1 million oz silver over the first 8 years. The life of mine is 16.3 years (1 construction year and 15.3 production years).

The three phase start up designed to reduce initial capital costs. In **Phase 1A**, the high-grade copper DSO will be mined from the Debarwa deposit by open-pit methods, crushed and loaded into containers and transported 120 km to the port facility at Massawa for shipping and sale to a smelter. This DSO zone contains 116,000 tonnes of high-grade material with an average grade of 15.6% copper, 2.96 g/t gold, and 76.8 g/t silver. In order to access the DSO zone, which is found about 30 meters from surface, the enriched gold oxide cap at surface will be mined and this material along with the similar gold cap from Emba Derho will make up **Phase 1B** which is the open-pit mining of the gold caps from both deposits with recovery of the gold by heap-leaching methods. Providing that the mining license is issued by the government to AMSC as expected in early 2015 and funding is in place, Phase 1 production is on track to start in the 4th quarter of 2015.

Capital and operating costs for Phase 1 are currently being reviewed in detail as management has identified opportunities to potentially lower these costs and further enhance the economics. Phase **1A** capital costs are expected to be significantly reduced than those outlined in the feasibility study and the initial revenue from Phase 1A (DSO) will fund the construction of Phase 1B (gold heap-leaching) facilities.

Mining License

The permitting process to receive a mining license for operation of the Asmara mine was initiated last January with the submittal of the Social and Environmental Impact Assessment (SEIA) report and in April 2014 of the Social and Environmental Management Plans (SEMP) to the Ministry of Energy and Mines. Recently, the Ministry of Energy & Mines appointed an independent engineering company to initiate due diligence work on the Study and the SEIA. This work is expected to be completed by January 2015 and therefore the mining license is likely to be granted to AMSC as expected in the 1st quarter of 2015.

Selection of Engineering, Procurement and Construction Management (EPCM) Contractor

Eligible candidates for an EPCM contractor for Phase 2 and 3 of the Asmara mine were identified in late 2013. The tendering process will proceed with the appointment by AMSC of the selected contractor scheduled for early 2015 with basic design work beginning soon afterwards. EPCM functions for Phase 1 will be conducted by an owner's team with support from a consultant engineering group.

Environmental Monitoring and Social Engagement

To comply with both international and national environmental regulations AMSC will have an ongoing program of environmental monitoring that will continue to the initialization of production and beyond. In addition, there is an ongoing program of engagement of local communities that will be affected by the development of the Asmara Project.

Project Financing

A project information memorandum was disseminated to a group of potential debt financing lenders in late 2013. These groups included commercial and development banks, export credit agencies and equipment suppliers, commodity off-take companies and royalty and streaming groups. At this stage several financing options are under consideration, including conventional senior secured project related debt facilities and subordinated debt. Management of AMSC will continue discussions with potential lending groups during the first quarter of 2015 with expectations of indicative term sheets to be delivered from the groups by the second quarter of 2015 for consideration.

Discussions with other parties

Since publication of the results of the Study in May 2013, Sunridge has been approached by a number of companies interested in acquiring all or part of Sunridge's interest in the Asmara Project. The Company continues discussions with a number of interested parties. There can be no assurance that any transaction will occur, or as to the timing, structure or terms of any transaction.

Exploration

Current exploration work is focused on the two "pipeline" deposits on the Asmara Project; the Kodadu volcanogenic-massive-sulphide ("VMS") deposit and the Adi Rassi copper-gold deposit. Both deposits have Inferred mineral resources and are open for expansion. The goal of the current field work is to define new areas of mineralization and to direct additional expansion drilling planned for next year.

Current exploration work on the Kodadu and Adi Rassi deposits is comprised of the following:

Kodadu

- Channel and trench sampling of the VMS gold oxide and gold shear zones at surface
- Detailed geological and structural mapping over the current VMS resource and the gold shear zone recently identified to the west
- Geophysical work consisting of an AMT (audi-magneto-telluric) survey to define the massive sulfide at depth below the known VMS gossans exposed at surface, as well as other identified VMS style targets to the northeast which are coincident with both high gravity anomalies and strong electro-magnetic conductors.

Adi Rassi

- Detailed geological and structural mapping at 1:500 scale
- Trenching and channel sampling of surface exposed mineralization to the south of the existing resource
- AMT survey lines to define the VMS-style mineralization to the west of Adi Rassi

Besakoa Project, Madagascar

The Company had an option to acquire up to a 100% interest in a mineral exploration property held in Daraina Exploration S.A.R.L. ("Daraina"), a subsidiary of Majescor Resources Inc. ("Majescor"). The Besakoa mineral exploration property is held by Daraina and located in Madagascar. Pursuant to the September 15, 2008 (as amended June 19, 2009) option agreement, the Company earned a 50% interest in the property by having completed the following: issued 500,000 common shares of the Company and incurred $2,000,000 work expenditures by September 15, 2011. During the year ended August 31, 2013, the Company wrote-off exploration and evaluation assets totaling $354,759 as the Company had no plans to continue exploring the Besakoa project.

On January 20, 2014, the Company forfeited its beneficial 50% interest in the Besakoa property to Majescor. Accordingly, the Company has no further ownership, right or entitlements to Daraina or any interest in the Besakoa mineral exploration license.

Qualified Person

Michael Hopley is the person responsible for preparation and verification of the technical information contained in this MD&A and is a qualified person and President and Chief Executive Officer of Sunridge.

Results of Operations

The loss for the year ended August 31, 2014 was $5,728,780 (2013 – $12,449,984).

The more significant amounts and differences for the two years are as follows:

- Consulting fees and salaries, which include fees and salaries paid to the Company's executives and directors as well as support staff, were $1,567,949 for the year ended August 31, 2014 (2013 - $1,405,435). The increase over the comparative year is due to the hiring of an operations manager for the Asmara Project as well as less consulting fees and salaries being allocated to exploration and evaluation expenditures.

- Exploration and evaluation expenditures totaled $2,137,693 for the year ended August 31, 2014 (2013 - $8,432,127). As discussed earlier, the Company completed a feasibility study on the Asmara Project in May 2013 and completed a SEIA report in December 2013. A total of $2,137,693 was expended on the Asmara Project in the current year compared to $8,354,317 in the comparative year with the largest expenditure item being engineering contractors and consultants of $1,027,977 in the current year compared to $5,370,918 in the prior year.

- Financial advisory fees totaled $339,927 for the year ended August 31, 2014 (2013 - $415,354). On August 8, 2011, the Company engaged Endeavour Financial International Corporation ("Endeavour") on an exclusive basis to provide financial advisory services with respect to its debt financing requirements for the development of the Asmara Project. Endeavour is paid a monthly work fee during the term of the engagement, milestone fees in certain circumstances and a financing success fee on the closing of any debt financing provided to Sunridge. On June 10, 2013, the Company engaged Micon International Limited ("Micon") to complete an independent "due diligence" review of the Asmara Project on behalf of potential financing providers to the project. Endeavour will lead this process until the lender group is formed. Micon's review covered all aspects of the project including mineral resources/reserves, metallurgy, processing plant and infrastructure, mine design, economic analysis, and environmental and social engagement programs. Micon subsequently completed their independent "due diligence" review of the Asmara Project and the report is now available to potential lenders.

- Investor relations and travel expenses combined to $383,197 for the year ended August 31, 2014 (2013 - $415,205). The category includes executive travel to Eritrea as well as travel to present the Company to interested investors.

- Professional fees were $197,712 for the year ended August 31, 2014 (2013 - $127,820). The increase was primarily related to legal fees in connection with finalization of the Shareholders' Agreement with ENAMCO and other matters.

- Rent, telephone and utilities were $126,475 for the year ended August 31, 2014 (2013 - $111,183). The increase over the comparative year is due to the Company sub-leasing part of its office space in the prior year.

- Non-cash share-based compensation expense for the year ended August 31, 2014 was $944,831 (2013 - $890,565). During the year ended August 31, 2014, the Company granted 5,600,000 (2013 – 6,000,000) stock options to directors, officer, employees and consultants, exercisable for up to five years at prices of between $0.20 and $0.26 per share.

- Foreign exchange gain for the year ended August 31, 2014 was $220,840 (2013 - $78,627 loss). The gain in the current year is primarily related to the revaluation of the Company's monetary assets, which include amounts due from non-controlling interest.

The remaining costs increased or decreased relatively insignificantly.

Selected Annual Information

	Fiscal Year Ended August 31 2014	**Fiscal Year Ended August 31 2013**	**Fiscal Year Ended August 31 2012**
Statement of Loss	$	$	$
Net revenues	Nil	Nil	Nil
Net loss	(5,728,780)	(12,449,984)	(18,659,571)
Net loss per share	(0.03)	(0.07)	(0.16)
Financial Position			
Total assets	28,682,783	19,818,878	21,232,401
Long term debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

Summary of Quarterly Results

The financial results for each of the eight most recently completed quarters are summarized below:

	3 months ended August 31, 2014	3 months ended May 31, 2014	3 months ended February 28, 2014	3 months ended November 30, 2013	3 months ended August 31, 2013	3 months ended May 31, 2013	3 months ended February 28, 2013	3 months ended November 30, 2012
Total revenues	$-	$-	$-	$-	$-	$-	$-	$-
Loss	(1,045,299)	(1,523,413)	(1,192,174)	(1,967,894)	(2,510,364)	(3,626,612)	(3,564,714)	(2,748,294)
Loss per share, basic and diluted	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)

The loss is discussed in the Results of Operations.

The Company is a development stage company. At this time any issues of seasonality or metal market fluctuations have no significant impact. In part, the Company's treasury determines the levels of activity.

Fourth Quarter

The Company began the fourth quarter with $743,430 cash. During the three months ended August 31, 2014, the Company expended $1,043,715 on operating activities, expended $115,235 on investing activities, and received $2,158,850 from the sale of a 40% interest in the Asmara Project with a negative effect of foreign exchange on cash of $1,862, to end the quarter and the fiscal year with $1,741,468 in cash.

Liquidity

The Company began the year with cash of $883,225. In the year ended August 31, 2014, the Company expended $6,395,263 on operating activities, expended $115,235 on investing activities, and received $7,370,603 from financing activities with a negative effect of foreign exchange on cash of $1,862, to end on August 31, 2014 with $1,741,468 in cash.

In October 2013, the Company completed a brokered and non-brokered private placement by issuing 30,263,159 units at a price of $0.19 per unit for gross proceeds of $5,750,000. Each unit comprised one common share and one transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of $0.35 until October 18, 2017. In relation to the brokered portion of the private placement, the Company paid commissions of $341,010 in cash and issued 1,794,789 broker warrants. Each broker warrant entitles the holder to purchase one unit at a price of $0.19 per unit until October 18, 2017. Additional cash share issue costs were $230,237.

In May 2014, the Company issued 150,000 common shares on the exercise of options for gross proceeds of $33,000.

In July 2014, the Company received the first US$2,000,000 of the US$18,330,000 purchase price from the sale of a 40% interest in the Asmara Project.

Subsequent to August 31, 2014, the Company received the next US$3,000,000 of the US$18,330,000 purchase price from the sale of a 40% interest in the Asmara Project.

As at August 31, 2014, the Company had working capital of $8,620,381 which includes the US$3,000,000 mentioned above. However, given that management intends to significantly develop the Asmara Project during fiscal 2015, management estimates these funds will not provide the Company with sufficient financial resources to carry out currently planned operations through the next twelve months. The Company will need to seek additional sources of financing to bring the Asmara mine into production. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

Capital Resources

At the date of this MD&A, the Company has 16,475,000 stock options at exercise prices ranging from $0.20 to $1.37; 80,192,558 share purchase warrants at exercise prices ranging from $0.35 to $1.40; and 1,823,218 broker warrants at exercise prices ranging from $0.19 to $0.22.

All stock options, share purchase warrants, and broker warrants will, if exercised, provide additional cash.

Contractual Obligations

The Company's expenditure commitments on its mineral properties are primarily at the Company's discretion.

The Company has an obligation under its corporate office lease in Vancouver, B.C. until March 2015 as described in the Financial Report.

Transactions with Related Parties

a) The Company's related parties consist of companies owned in whole or in part by executive officers and directors as follows:

Name	Nature of transactions
Golden Oak Corporate Services Ltd.	Consulting for corporate compliance, and financial reporting

The Company incurred the following fees in the normal course of operations in connection with companies owned by key management and directors.

	Years ended August 31,	
	2014	2013
Consulting fees	$ 120,000	$ 120,000

b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel, which include the amounts disclosed above, during the years ended August 31, 2014 and 2013 were as follows:

	Years ended August 31,	
	2014	2013
Salaries	$ 791,250	$ 860,000
Director fees	163,500	163,500
Consulting fees	120,000	120,000
Share-based compensation	744,973	665,829
	$ 1,819,723	$ 1,809,329

As at August 31, 2014, an amount of $53,286 (2013 - $51,834) is due to certain officers and directors of the Company and is included in trade and other payables.

Newly Adopted Accounting Standards and Interpretations

During the year ended August 31, 2014, the Company adopted the following new accounting standards:

- New standard IFRS 10 *Consolidated Financial Statements*

  Provides a new single consolidation model that identifies control as the basis for consolidation for all types of entities, and replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.*

- New standard IFRS 11 *Joint Arrangements*

  Improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. Such a principle-based approach will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*.

- New standard IFRS 12 *Disclosure of Interests in Other Entities*

  Combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

- New standard IFRS 13 *Fair Value Measurement*

  Defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value.

During the year ended August 31, 2014, the Company adopted the following revised accounting standards:

- Revised standard IAS 27 *Separate Financial Statements*

  As a result of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 27 has been reissued to reflect the change as the consolidation guidance has recently been included in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements.

- IAS 28 *Associates and Joint Ventures*

  As a consequence of the issue of IFRS 11, IAS 28 has been amended and provides the accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The adoption of these new and revised standards did not have a material effect on the consolidated financial statements.

New Standards, Interpretations and Amendments Not Yet Effective

A number of new standards, amendments to standards and interpretations are not yet effective as of August 31, 2014, and have not been applied in preparing the consolidated financial statements.

Effective for annual periods beginning on or after January 1, 2014

- Amendments to IAS 32, Financial Instruments: Presentation

  IAS 32 is amended to clarify the requirements for offsetting of financial assets and financial liabilities.

Effective for annual periods beginning on or after January 1, 2018

- New standard IFRS 9, Financial Instruments

  IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. This standard simplifies the current measurement model for financial instruments under IFRS and establishes two measurement categories for financial assets: amortized cost and fair value. The existing IAS 39 categories of loans and receivables, held to maturity investments, and available for sale financial assets will be eliminated.

- Amendments to IFRS 7, Financial Instruments: Disclosure

  Amendment to require additional disclosures on transition from IAS 39 to IFRS 9.

The Company has not early adopted these revised standards and none of these standards are expected to have a material effect on the consolidated financial statements.

Financial Instruments and Risk Management

Financial Instruments

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; or other liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	August 31, 2014	August 31, 2013
Cash	FVTPL	$ 1,741,468	$ 883,225
Receivables	Loans and receivables	16,564	34,925
Due from non-controlling interest	Loans and receivables	7,426,930	-
Trade and other payables	Other liabilities	(607,029)	(2,760,295)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments consist of cash, receivables, amounts due from non-controlling interest, and trade and other payables. The fair values of receivables, amounts due from non-controlling interest, and trade and other payables approximate their fair value due to their short-term nature. Cash is recorded at fair value using Level 1 of the fair value hierarchy.

Risk Management

The Company's risk exposures and the impact on the Company's financial instruments are summarized as follows:

Credit Risk
Credit risk is the risk of potential loss to the Company if a 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, receivables, and amounts due from non-controlling interest. The Company limits the exposure to credit risk in its cash by only investing its cash with high-credit quality financial institutions in business and savings accounts, guaranteed investment certificates and in government treasury bills which are available on demand by the Company for its programs. The Company's receivables are primarily related to tax credits receivable from the government of Canada, and as such, credit risk is not considered significant. The Company is exposed to credit risk on amounts due from non-controlling interest. Due from non-controlling interest is collectable from ENAMCO, an Eritrean state owned entity. Subsequent to year-end the Company received US$3,000,000 from ENAMCO in repayment of this amount and management expects the remainder to be collected during fiscal 2015. As a result, the credit risk on amounts due from non-controlling interest is not considered significant.

Liquidity Risk
Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that there is sufficient capital in order to meet short-term business requirements. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next sixty days.

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. These fluctuations may be significant.

(a) Interest Rate Risk: The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

(b) Foreign Exchange Risk: As at August 31, 2014, the majority of the Company's cash was held in Canada in Canadian and US dollars. The Company's significant operations are carried out in Eritrea. As a result, a portion of the Company's working capital is denominated in Nakfa and United States Dollar and is therefore subject to fluctuation in exchange rates. The government of Eritrea has fixed the exchange rate of Nakfa as 15 Nakfa for one United States Dollar.

At August 31, 2014, the Company is exposed to foreign currency risk through the following financial assets and liabilities held in the following United States dollar equivalents:

Cash	$	553,532
Receivables		1,886
Advances and prepaid expenses		9,256
Due from non-controlling interest		6,280,068
Trade and other payables		(184,816)
	$	6,659,926

Based on the above net exposures at August 31, 2014, a 1% appreciation (depreciation) of the United States dollar against the Canadian dollar, with all other variables held constant, would result in approximately a $73,000 increase (decrease) in profit or loss for the year. The Company has not hedged its exposure to currency fluctuations.

(c) Commodity Price Risk: While the value of the Company's mineral resource properties are related to the price of gold, copper and other metals, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect to its operational activities.

Historically, the price of gold, copper and other metals has fluctuated significantly and is affected by numerous factors outside of the Company's control, including but not limited to industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to gold, copper and other metals.

Political Uncertainty
In conducting operations in Eritrea, the Company is subject to considerations and risks not typically associated with companies operating in North America. These include risks such as the political, economic and legal environments. Among other things, the Company's results may be adversely affected by changes in the political and social conditions in Eritrea and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

Additional Disclosure for Venture Issuers without Significant Revenue

The components of expensed exploration and capitalized acquisition costs are described in note 7 of the Financial Report.

Outstanding Share Data as at the date of this MD&A

Authorized: an unlimited number of common shares without par value.	Common Shares Issued and Outstanding	Common Share Purchase Warrants	Stock Options	Broker Warrants
Outstanding as at August 31, 2014	209,944,982	80,192,558	16,475,000	1,823,218
Outstanding as at the date of this MD&A	209,944,982	80,192,558	16,475,000	1.823.218

Forward Looking Statements

This MD&A may include or incorporate by reference certain statements or disclosures that constitute "forward-looking information" under applicable securities laws. All information, other than statements of historical fact, included or incorporated by reference in this MD&A that addresses activities, events or developments that Company or its management expects or anticipates will or may occur in the future constitute forward-looking information. Forward-looking information is provided through statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur or continue. These forward-looking statements are based on certain assumptions and analyses made by Company and its management in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances.

Although the Company believes such forward-looking information and the expectations expressed in them are based on reasonable assumptions, investors are cautioned that any such information and statements are not guarantees of future realities and actual realities or developments may differ materially from those projected in forward-looking information and statements. Whether actual results will conform to the expectations of the Company is subject to a number of risks and uncertainties, including those risk factors discussed under "Risk Factors" elsewhere in this MD&A and the documents incorporated herein by reference. In particular, if any of the risk factors materialize, the expectations, and the predictions based on them, of the Company may need to be re-evaluated. Consequently, all of the forward-looking information in this MD&A and the documents incorporated herein by reference is expressly qualified by these cautionary statements and other cautionary statements or factors contained herein or in documents incorporated by reference herein, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences for the Company.

Forward-looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. Unless otherwise required by law, the Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, should change, whether as a result of new information, future events or otherwise, and the Company does not have any policies or procedures in place concerning the updating of forward-looking information other than those required under applicable securities laws. Accordingly, readers should not place undue reliance on forward-looking statements or forward-looking information.

Risks

The business and operations of the Company are highly speculative due to the high-risk nature of its business in the mining industry, including but not limited to the acquisition, financing, exploration and development of its mineral properties. The risks below, some of which are summarized elsewhere in this MD&A, are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the following risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

Commodity Price Risk

Revenue and profitability of the Company's operations will be dependent upon the market price of mineral and materials commodities. The Company's revenues will be substantially attributable to the sale of copper concentrate and other metals. Prices of copper, gold and other metals are key performance drivers for the Company and fluctuations in the prices of these commodities may have a significant impact on the Company's operations and financial performance. The Company does not enter into any commodity hedging and accordingly is fully exposed to price risk. The price of copper, gold, and other metals can and has experienced volatile and significant price movements over short periods of time, and is affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation or deflation, currency exchange fluctuations (specifically, the U.S. dollar relative to other currencies), interest rates, global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for copper, gold and other metals are affected by various factors, including political events, economic conditions, competition, production costs, and governmental policies. If the market price of copper, gold or other metals falls significantly from its current level, the development of the Company's mineral properties may be rendered uneconomic and the development may be suspended or delayed.

Exploration, Development and Operating Risks

Mining operations generally involve a high degree of risk. The Company's Asmara Project in Eritrea will be subject to all the hazards and risks normally associated with mineral production, including damage to or destruction of plant and equipment, unexpected geologic formations, pit collapse, injury or life endangerment, environmental damage, fire, equipment failure or structural failures, such as retaining walls or tailings dams, potentially resulting in environmental pollution and consequent liability. The Company may also be unable to effectively manage the sulphide rich reactive ground as it affects blasting and continuous ore supply and experience unplanned detonations resulting from reactive ground or experience a failure of drilling, processing and mining equipment or unanticipated costs and downtimes due to optimizing the copper floatation plant and its operating facilities. These costs, downturns and other risks can have a material, adverse effect on the Company's future operating costs and results, its operations and financial position.

The exploration for and development of mineral deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an orebody may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. There is no certainty that expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries or future development. Whether a mineral deposit will be commercially viable depends on a number of factors, which include, among other things, the interpretation of geological data obtained from drill holes and other sampling techniques, feasibility studies (which include estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed), the particular attributes of the deposit such as size, grade and metallurgy, expected recovery rates of metals from the ore, proximity to infrastructure and labour, the cost of water and power, anticipated climatic conditions, cyclical metal prices, fluctuations in inflation and currency exchange rates, higher input commodity and labour costs, and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, and environmental protection.

Major expenses may be required to locate and establish additional mineral reserves. It is impossible to ensure that the exploration or development programs planned by Sunridge will result in additional profitable commercial mining operations. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Sunridge not receiving an adequate return on invested capital. The Company significantly relies on the analyses performed by its Qualified Persons to estimate resources and reserves, and such estimates may be subject to material risks and uncertainties.

The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond its control. These factors include market fluctuations, the proximity and capacity of natural resource markets and processing equipment, and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Foreign Operation and Political Risks

The Company conducts operations in Eritrea through foreign subsidiaries with financial assets in Barbados and Eritrea, and substantially all of its assets are held in such entities. While the Company believes that the political climate of these countries and strong government support in Eritrea provide a stable environment for its operations, there is no guarantee against any future political, or economic instability in these countries or neighbouring countries which might adversely affect the Company.

Political unrest in Egypt, Libya, Syria, Yemen, Saudi Arabia, Somalia, South Sudan, Sudan and other countries in the region has had an impact on investor confidence with companies operating in northern Africa, including Eritrea, even though no direct effect is evident or anticipated in the operations of the Company or communications with the Eritrean government. New government regulations in Canada, the United States or other countries in which the Company operates adversely affect the Company's future business and operations. In addition, intervention by the international community through organizations such as the United Nations could affect the political risk of operating in Eritrea. In December 2009 the United Nations Security Council ("UNSC") imposed sanctions on Eritrea related to an arms embargo, which in itself has had no direct impact to the Company's operations, except to cause some uncertainty as to how UN member states may continue to deal with the country. In December 2011 the UNSC provided additional sanctions guidance to member states. Effects of the sanctions could impact the Company's ability to operate efficiently. There are also unresolved tensions between Ethiopia and Eritrea and the possibility of future armed conflicts between Ethiopia and Eritrea by rebel groups or otherwise which could affect or interfere with continued operations of the Company. These factors or the perception thereof could impede the Company's activities, result in the impairment or loss of part or all of the Company's interest in the properties, or otherwise have an adverse impact on the Company's valuation and stock price.

Infrastructure Risk

Mining, processing and development activities depend, to some degree, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants that affect capital and operating costs. Disruption or curtailment of access to or maintenance of such infrastructure or supplies, be it due to inclement weather, wear and tear, or other reasons, could have an adverse material impact on ability to service and operate due to higher costs or business interruption. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Key Executive Risk

The Company is to a large degree dependent on the services of key executives and senior personnel. The loss of these persons or the Company's inability to attract and retain executives and personnel with the qualifications necessary to operate the business successfully may adversely affect its business and future operations. The Company competes with numerous other companies for the recruitment and retention of qualified executives and employees.

Expatriate and Third-party Nationals Skills Risk

The Company is reliant on attracting and retaining expatriate and third-party nationals with mining experience to staff key operations and administration management positions. The Company's inability to attract and retain personnel with the skills and experience to manage the operation and train and develop staff, due to the intense international competition for such individuals, may adversely affect its business and future operations.

Labour Risk

The Company is dependent on its workforce to maintain operations, and is therefore sensitive to labour disruptions or changes to laws. The Company endeavours to maintain good relations with its workforce in order to minimize the possibility of strikes, lock-outs and other stoppages at its work sites. Relations between the Company and its employees may be impacted by changes in labour relations which may be introduced by, among other things, employee groups, unions, and the relevant governmental authorities in whose jurisdictions the Company carries on business.

Mineral Reserve and Mineral Resource Estimate Risk

The tabulated data for mineral reserves and mineral resources presented in figures in this document and contained in the Company's continuous disclosure documents filed on SEDAR are estimates generated by Qualified Persons, and no assurance can be given that the anticipated tonnages and grades will be achieved or, in the case of reserves, that the indicated level of metallurgical recovery will be realized. Actual reserves may not conform to geological, metallurgical or other expectations, and the volume and grade of ore recovered may be below the estimated levels. Market fluctuations in the price of mineral commodities or increases in the costs to recover minerals may render the mining of ore reserves uneconomical and require the Company to take a write-down of the asset or to discontinue development or production. Moreover, short-term operating factors relating to the reserves, such as the need for orderly development of the ore body or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period.

There are numerous uncertainties inherent in estimating quantities of mineral resources and reserves, including many factors that are beyond the Company's control. The estimates are based on various assumptions relating to metal prices and exchange rates during the expected life of production, mineralization of the area to be mined, the projected cost of mining including costs of fuel and other critical operating consumables, and the results of additional planned development work. Actual future production rates and amounts, revenues, taxes, operating expenses, environmental and regulatory compliance expenditures, development expenditures and recovery rates may vary substantially from those assumed in the estimates. Any significant change in these assumptions, including changes that result from variances between projected and actual results or any assumptions in the historical resource estimates turn out to be incorrect, incomplete or flawed in any respect or the methodologies and models used to prepare the resource and reserve estimates either underestimate or overestimate the resources or reserves due to hidden or unknown conditions, could result in material downward or upward revision of current estimates.

Production Risk

As is typically the case with the mining industry, no assurances can be given that future mineral production estimates will be achieved. Estimates of future production for the Company's mining operations are derived from the Company's mining plans. These estimates and plans are subject to change, including changes based on actual mining results at various phases of the mining operations. The Company cannot give any assurance that it will achieve its production estimates. The Company may not be able to effectively manage potential deleterious elements contained within the ore to ensure continued saleability of concentrates produced at projected costs. The Company may not be able to effectively manage the combination of oxidation of ore stocks coupled with in pit water inflow which may adversely affect flotation and quality of concentrates produced. There is a further risk that the potential reactive nature of the ore and waste with high pyrite (sulphides) content and its reactivity with ammonium nitrate contained in explosives will have a negative impact on ore and waste blasting efficiencies and result in increased costs. Any process plant adjustments or modifications to further optimise and improve operating efficiencies could result in significant capital expenditures and have an impact on process plant productivity or result in a temporary shutdown to rectify the issues. The Company's failure to effectively manage these and other matters and to achieve its production estimates could have a material and adverse effect on the Company's future cash flows, results of operations, production cost, financial condition and prospects. The plans are developed based on, among other things, mining experience, reserve estimates, assumptions regarding ground conditions, hydrologic conditions and physical characteristics of ores (such as hardness and presence or absence of certain metallurgical or mineralogical characteristics) and estimated rates and costs of production, and include assumptions derived by geological block models developed by the Qualified Person in consultation with Company personnel. Actual production may vary from such estimates for a variety of reasons, including risks and hazards of the types discussed above, and as set out below, including:

- greater mining dilution than expected affecting geological grades and material movement;
- accidents;
- mobile and fixed plant equipment failures;
- natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes;
- unforeseen geotechnical structures and faults leading to pit wall failures and production delays;
- adverse chemical nature and potential acidity and amount of in-pit water;
- unexpected or higher than anticipated occurrence of deleterious elements in the ore such as arsenic, selenium and tellurium impacting subsequent concentrate quality;
- higher than expected oxidation of in-pit ore stocks adversely impacting flotation characteristics and subsequent concentrate quality;
- encountering unusual or unexpected mineralogy conditions including reactive sulphide rock with ammonia

nitrate based explosives adversely affecting blasting procedures and productivity;
- changes in power costs and potential power shortages;
- shortages of principal supplies (fixed components, parts and consumables) needed for operations;
- strikes and other actions by labour;
- unanticipated costs, delays or downtime due to maintenance or further required optimisation of the process plant and operation facilities; and
- regulatory restrictions imposed by government agencies.

Such occurrences could, in addition to stopping or delaying mineral production or impacting quality and saleability of metal concentrates, result in damage to mineral properties, injury or death to persons, damage to the Company's property or the property of others, monetary losses and legal liabilities. These factors may also cause a mineral deposit that has been mined profitably in the past to become unprofitable. Estimates of production from properties not yet in production or from operations that are to be expanded are based on similar factors (including, in some instances, feasibility studies prepared by the Company's personnel and outside consultants) but it is possible that actual operating costs and economic returns will differ significantly from those currently estimated.

Permitting Risk

The Company's operations and future development are subject to receiving and maintaining permits from appropriate governmental authorities and the granting of new exploration and other licenses and permits. There is no assurance that delays will not occur in connection with obtaining all necessary renewals of existing permits for current operations or exploration tenements, or for additional permits for any possible future changes to operations or applications for new exploration tenements, or additional permits associated with new legislation. Prior to any development on any of its properties, the Company must receive permits from appropriate governmental authorities. There can be no assurance that the Company will obtain or continue to hold all permits necessary to develop or continue operating at any particular property. Any failure to obtain or maintain requisite permits could have a material adverse effect on the Company and its future production.

Risks Related to the Construction and Start-up of New Mining Operations or Mining Phases

The success of construction projects and their optimisation or the start-up of new mines by the Company is subject to a number of factors including the availability and performance of engineering and construction contractors, mining contractors, suppliers and consultants, the receipt of required governmental approvals and permits in connection with the construction of mining facilities and the conduct of mining operations, including environmental permits, price escalation on all components of construction, plant expansion, transition to primary production or start-up of new mines, the underlying characteristics, quality and unpredictability of the exact nature of mineralogy and metallurgy of a deposit and the consequent accurate understanding of doré or concentrate production, the successful completion and operation of conveyors to move ore and other operational elements. Any delay in the performance of any one or more of the contractors, suppliers, consultants or other persons on which the Company is dependent in connection with its construction or start-up of new mines, a delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay in or failure in connection with the completion and successful operation of the construction or operational elements could delay or prevent the construction projects or the start-up of new mines. There can be no assurance that future construction projects or the start-up of new mines by the Company will be successful.

Environmental Risk

Production at the Company's mine will involve the use of toxic materials. Should toxic materials leak or otherwise be discharged from the containment system then the Company may become subject to liability for clean-up work that may not be insured. While the Company intends to prevent discharges of pollutants into the ground water and the environment, it may be unsuccessful and may become subject to liability for hazards that it may not be insured against. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Company's operations are subject to environmental regulations promulgated by the government of Eritrea. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas that could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. Environmental legislation is evolving in general in a manner that means standards and enforcement, fines and penalties for non-compliance are becoming more stringent. Environmental assessments for projects carry a heightened degree of responsibility for companies, directors, officers and employees. The cost of compliance with changes in government regulations has the potential to reduce the profitability of operations. The Company plans to devote significant time and resources to meeting the goal of complete compliance with all environmental regulations in the countries in which the Company has operations and comply with prudent international standards.

Environmental hazards may also exist on the properties on which the Company holds interests that are unknown to the Company at present and that have been caused previous to the Company receiving title to the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, including the Company, may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

Currency Risk

At present all of the Company's activities are carried on outside of Canada and are subject to risks associated with fluctuations of the rate of exchange of foreign currencies. The United States dollar (USD) is the functional currency of the Company's 60% owned Eritrean subsidiary, exposing the Company to risk on any fluctuations of the USD with other currencies to which the Company is exposed, which are primarily the Canadian dollar and Eritrea Nakfa. While only a small portion of the the Company's expenditures are denominated in Nakfa, a re-valuation or de-pegging of this currency to the USD could expose the Company to additional currency risk.

Funding Risks

The exploration, development, and operation activities of the Company may require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration, development, and operation activities of the Company including a loss of property interest. Historically, the Company has financed its activities through the sale of equity capital. The Company intends to finance its activities in future periods through debt financing and the sale of metals from the Asmara mine. Factors which may impact cash flows include overall global market conditions, changes in metal prices, taxes, operating costs, marketability of copper concentrate, gold and other metals from operations, capital expenditures or other unexpected occurrences such as unanticipated costs, delays, downtimes, slowdown or stoppage of operations. Failure to obtain sufficient financing to continue operations if such needs arise may adversely affect the Company's business and financial position. Should the Company require additional funding for exploration, development, and operation activities, there is no assurance that sources of financing will be available on acceptable terms or at all.

Counterparty Risks

The Company is exposed to various counterparty risks including, but not limited to: (i) financial institutions that hold the Company's cash and cash equivalents; (ii) companies that have payables to the Company; and (iii) insurance providers. As a result, the Company may become exposed to credit-related losses in the event of non-performance by such counterparties.

Insurance Risks

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with a mining company's operations. Sunridge may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability.

Land Title Risk

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims, including indigenous land claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

Competition Risks

The mining industry is intensely competitive in all of its phases and the Company competes with many companies possessing greater financial and technical resources than itself. There is intense competition in the mining industry for mineral rich properties that can be developed and produced economically, the technical expertise to find, develop, and operate such properties, the labour to operate the properties, and the capital for the purpose of funding such properties. Many competitors not only explore for minerals, but conduct refining and marketing operations on a global basis. Such current and future competition may result in the Company being unable to acquire desired properties. The Company is also subject to risks associated with a hostile takeover of the common shares of the

Company or other unsolicited attempts to acquire control of the Company.

Governmental Regulatory Risks

The Company's mineral exploration and development activities are subject to various laws governing prospecting, development, taxes, labour standards and occupational health, environmental protection and preservation, and other matters. No assurance can be provided that the Company will be successful in its efforts to comply with all existing rules and regulations, that new rules and regulations will not be enacted, or that existing rules and regulations will not be modified in a manner that could limit or curtail production or development of the Company's properties. All such rules and regulations governing the operations and activities of the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

Share Price Risk

The market price of a publicly traded stock is affected by many variables not directly related to the success of the Company, including the market for all resource sector shares, the breadth of the public market for the stock, and the attractiveness of alternative investments. The effect of these and other factors on the market price of the common shares of the Company on the exchanges on which the common shares are listed suggests that the share price will be volatile. In the previous two years, between September 1, 2012 and August 31, 2014 the Company's shares traded in a range between $0.13 and $0.30 per share.

Conflicts of Interest

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the Business Corporations Act (British Columbia) and other applicable laws.

Other Information

Additional information relating to the Company is available for viewing on SEDAR at www.sedar.com and at the Company's web site www.sunridgegold.com.

SUNRIDGE GOLD CORP

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

YEAR ENDED AUGUST 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sunridge Gold Corp.

We have audited the accompanying consolidated financial statements of Sunridge Gold Corp., which comprise the consolidated statements of financial position as at August 31, 2014 and 2013, and the consolidated statements of loss, 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.

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Sunridge Gold Corp. as at August 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 conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Sunridge Gold Corp.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada Chartered Accountants

December 17, 2014

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

	Note	August 31, 2014	August 31, 2013
ASSETS			
Current			
Cash	*4*	$ 1,741,468	$ 883,225
Receivables	*5*	16,564	34,925
Advances and prepaid expenses	*6*	42,448	41,521
Due from non-controlling interest	*7*	7,426,930	-
		9,227,410	959,671
Exploration and evaluation assets	*8*	-	18,672,672
Mineral properties	*8*	19,331,808	-
Equipment	*9*	123,565	186,535
		$ 28,682,783	$ 19,818,878
LIABILITIES			
Current			
Trade and other payables	*10*	$ 607,029	$ 2,760,295
EQUITY			
Share capital	*11*	115,332,326	109,452,850
Share-based reserve	*11*	13,296,854	12,189,618
Foreign exchange reserve		211,027	-
Deficit		(108,450,130)	(104,583,885)
Equity attributable to Sunridge shareholders		20,390,077	17,058,583
Non-controlling interest	*7*	7,685,677	-
		28,075,754	17,058,583
		$ 28,682,783	$ 19,818,878

Nature of operations and going concern	*1*
Commitments	*16*

These consolidated financial statements are approved for issue by the Board of Directors on December 17, 2014.

"Michael J. Hopley" *"Eric Edwards"*

Michael J. Hopley, Director Eric Edwards, Director

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

CONSOLIDATED STATEMENTS OF LOSS

(Expressed in Canadian dollars)

	Note		Years ended August 31, 2014		2013
Expenses					
Consulting fees and salaries		$	1,567,949	$	1,405,435
Depreciation			59,181		77,757
Exploration and evaluation expenditures	*8*		2,137,693		8,432,127
Financial advisory fees			339,927		415,354
Foreign exchange (gain) loss			(220,840)		78,627
Insurance			21,765		25,299
Investor relations			227,104		244,239
Office and miscellaneous			113,267		80,551
Professional fees			197,712		127,820
Rent, telephone and utilities			126,475		111,183
Share-based compensation	*11*		944,831		890,565
Transfer agent, regulatory and shareholder communication			89,893		82,768
Travel			156,093		170,966
			(5,761,050)		(12,142,691)
Interest income			32,270		47,466
Write-off of exploration and evaluation asset	*8*		-		(354,759)
Loss for the year		$	(5,728,780)	$	(12,449,984)
Loss attributable to:					
Sunridge shareholders		$	(5,714,482)	$	(12,449,984)
Non-controlling interest			(14,298)		-
		$	(5,728,780)	$	(12,449,984)
Basic and diluted loss per share attributable to Sunridge shareholders		$	(0.03)	$	(0.07)
Weighted average number of shares outstanding			205,000,749		168,040,327

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

	Years ended August 31, 2014	2013
Loss for the year	$ (5,728,780)	$ (12,449,984)
Other comprehensive income (loss):		
Foreign exhange translation adjustment	351,711	-
Comprehensive loss for the year	$ (5,377,069)	$ (12,449,984)
Comprehensive loss attributable to:		
Sunridge shareholders	$ (5,503,455)	$ (12,449,984)
Non-controlling interest	126,386	-
	$ (5,377,069)	$ (12,449,984)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	Years ended August 31, 2014	2013
Cash flows to operating activities		
Loss for the year	$ (5,728,780)	$ (12,449,984)
Items not involving cash:		
Depreciation	59,181	77,757
Share-based compensation	944,831	890,565
Non-cash interest income	(18,103)	-
Write-off of exploration and evaluation asset	-	354,759
Non-cash financial advisory fees	-	42,470
Unrealized foreign exchange	(151,673)	-
Change in non-cash working capital items:		
Receivables	18,468	4,954
Advances and prepaid expenses	(740)	181,801
Trade and other payables	(1,518,447)	(625,048)
	(6,395,263)	(11,522,726)
Cash flows to investing activity		
Development costs	(110,721)	-
Purchase of equipment	(4,514)	(34,685)
	(115,235)	(34,685)
Cash flows from financing activities		
Proceeds received on sale of interest in AMSC	2,158,850	-
Proceeds from issuance of shares	5,783,000	11,502,617
Share issue costs	(571,247)	(774,143)
	7,370,603	10,728,474
Effect of foreign exchange on cash	(1,862)	-
Change in cash for the year	858,243	(828,937)
Cash, beginning of year	883,225	1,712,162
Cash, end of year	$ 1,741,468	$ 883,225
Non-cash investing and financing activities		
Depreciation included in mineral properties	$ 9,959	$ -
Mineral properties included in trade and other payables	182,092	-
Broker warrants issued as consideration for finder's fees	185,104	191,568
Shares issued for trade and other payables	830,128	-
Allocation of share-based reserve on exercise of options	22,699	-
Allocation of share-based reserve on exercise of broker warrants	-	189,827
Supplementary information		
Interest paid	-	-
Income taxes paid	-	-

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars)

	Number of shares	Share capital	Share-based reserve	Foreign exchange reserve	Deficit	Equity attributable to Sunridge shareholders	Non-controlling interest	Total equity
Balance, August 31, 2013	175,162,728	$ 109,452,850	$ 12,189,618	$ -	$ (104,583,885)	$ 17,058,583	$ -	$ 17,058,583
Share issues:								
Private placement	30,263,159	5,750,000	-	-	-	5,750,000	-	5,750,000
Share issue costs	-	(756,351)	185,104	-	-	(571,247)	-	(571,247)
Shares issued for trade and other payables	4,369,095	830,128	-	-	-	830,128	-	830,128
Exercise of options	150,000	55,699	(22,699)	-	-	33,000	-	33,000
Share-based compensation	-	-	944,831	-	-	944,831	-	944,831
Sale of interest in AMSC	-	-	-	-	-	-	9,245,538	9,245,538
Reallocation of non-controlling interest between parties of AMSC	-	-	-	-	1,848,237	1,848,237	(1,848,237)	-
Due from non-controlling interest	-	-	-	-	-	-	161,990	161,990
Foreign currency translation differences	-	-	-	211,027	-	211,027	140,684	351,711
Loss for the year	-	-	-	-	(5,714,482)	(5,714,482)	(14,298)	(5,728,780)
Balance, August 31, 2014	209,944,982	$ 115,332,326	$ 13,296,854	$ 211,027	$ (108,450,130)	$ 20,390,077	$ 7,685,677	$ 28,075,754

	Number of Shares	Share Capital	Share-based reserve	Foreign exchange reserve	Deficit	Equity attributable to Sunridge shareholders	Non-controlling interest	Total Equity
Balance, August 31, 2012	122,878,106	$ 98,726,117	$ 11,254,842	$ -	$ (92,133,901)	$ 17,847,058	$ -	$ 17,847,058
Share issues:								
Private placement	49,184,955	10,820,690	-	-	-	10,820,690	-	10,820,690
Share issue costs	-	(965,711)	191,568	-	-	(774,143)	-	(774,143)
Broker warrants exercised	3,099,667	871,754	(189,827)	-	-	681,927	-	681,927
Warrants issued for financial advisory services	-	-	42,470	-	-	42,470	-	42,470
Share-based compensation	-	-	890,565	-	-	890,565	-	890,565
Comprehensive loss for the year	-	-	-	-	(12,449,984)	(12,449,984)	-	(12,449,984)
Balance, August 31, 2013	175,162,728	$ 109,452,850	$ 12,189,618	$ -	$ (104,583,885)	$ 17,058,583	$ -	$ 17,058,583

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Sunridge Gold Corp. (the "Company" or "Sunridge") is incorporated under the laws of the Province of British Columbia. The Company's shares are listed on the TSX Venture Exchange ("TSXV"). The Company' registered and corporate office is Unit 1 - 15782 Marine Drive, White Rock, B.C., V4B 1E6.

Sunridge is engaged in the exploration and development of the Asmara Project in Eritrea through its 60% interest in Asmara Mining Share Company ("AMSC"). During the year ended August 31, 2014, the Company transferred all of its Eritrean assets to AMSC and effectively sold 40% of AMSC (Note 7).

The Company is considered to be in the development stage on the Asmara Project as of June 27, 2014 (Note 8). The continuing operating and the underlying value and recoverability of amounts shown for mineral properties are dependent upon the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. As at August 31, 2014, the Company had working capital of $8,620,381. However, given that management intends to significantly develop the Asmara Project during fiscal 2015, management estimates these funds will not provide the Company with sufficient financial resources to carry out currently planned operations through the next twelve months. The Company will need to seek additional sources of financing to bring the Asmara mine into production. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on the IFRS issued and effective as at the date the Board of Directors approved these financial statements for issue.

Basis of measurement

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

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the parent Company's functional currency. The functional currency of the Company's Barbados subsidiaries as well as the functional currency of the Company's 60% owned Eritrean subsidiary is the US dollar.

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Carrying value and recoverability of mineral properties

Management has determined that exploration, evaluation, development and related costs incurred which have been 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 other technical information, scoping and feasibility studies, accessibility of facilities and existing permits.

Estimated useful lives of equipment

The estimated useful lives of equipment which are included in the statements of financial position will impact the amount and timing of the related depreciation included in profit or loss.

Share-based compensation

The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data and which involves uncertainty and subjectivity in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgments (continued)

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

Capitalization of development costs

The application of the Company's accounting policy for development costs requires judgment in determining the timing at which to begin capitalizing development costs and whether future economic benefits, which are based on assumptions about future events and circumstances, may be realized. See Note 8 for further discussion.

Determination of functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency of the parent Company is the Canadian dollar. The functional currency of the Company's Barbados subsidiaries as well as the functional currency of the Company's 60% owned Eritrean subsidiary is the US dollar.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of Sunridge and its subsidiaries, from the date control was acquired. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. All inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation. For partially owned subsidiaries, the interest attributable to non-controlling shareholders is reflected in non-controlling interest. Adjustments to non-controlling interest are accounted for as transactions with owners and adjustments that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Name of subsidiary	Place of incorporation	Ownership interest	Principal activity
Sunridge Holding (Barbados) Ltd.	Barbados	100%	Holding company
Sunridge Eritrea Operating Ltd.	Barbados	100%	Holding Company
Asmara Mining Share Company	Eritrea	60%	Mineral exploration and development company

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interest

Non-controlling interest in the Company's less than wholly owned subsidiary is classified as a separate component of equity. On initial recognition, non-controlling interest is measured at the fair value of the non-controlling entity's contribution into the related subsidiary. Subsequent to the original transaction date, adjustments are made to the carrying amount of non-controlling interest for the non-controlling interest's share of changes to the subsidiary's equity.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest is adjusted to reflect the change in the non-controlling interest's relative interest in the subsidiary, and the difference between the adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received and/or consideration paid is recognized directly in equity and attributed to owners of the Company.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions in the financial statements of each entity in the Company.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the reporting date exchange rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in operations.

On consolidation, for subsidiaries with functional currencies other than Canadian dollars, the assets and liabilities are translated into Canadian dollars using the period-end rate and the operations and cash flows are translated using the average rates of exchange. Exchange adjustments arising when the opening net assets and the profit or loss are translated into Canadian dollars are taken into a separate component of equity and reported in other comprehensive profit or loss.

Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognized in operations on a straight-line basis over the estimated useful lives of each part of an item of equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are from three to five years commencing from the year the equipment is put into service.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties

(i) Pre-exploration costs

All expenditures incurred prior to securing the legal right to explore an area are expensed immediately.

(ii) Exploration and evaluation expenditures

Upon acquiring the legal right to explore a mineral property, all direct costs related to the acquisition of exploration and evaluation assets are capitalized. Exploration and evaluation expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to profit and loss as incurred.

(iii) Development costs

When economically viable reserves have been determined and the decision to proceed with development has been approved, exploration and evaluation assets are first assessed for impairment and then reclassified to mineral properties. Expenditures related to development and construction are capitalized as development costs and are included within mineral properties. Costs associated with the commissioning of new assets incurred in the year before they are operating in the way intended by management, are capitalized. Development expenditures are net of the proceeds of the sale of metals from ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

The Company has started to capitalize directly attributable development expenditures that give rise to future economic benefits as of June 27, 2014 (Note 8).

Expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be transferred to property, plant and equipment and amortized on the unit-of-production method based upon estimated proven and probable reserves. When there is little prospect of further work on a property being carried out by the Company, the remaining deferred costs associated with that property are charged to profit and loss during the period such determination is made.

The Company assesses mineral properties for impairment at each reporting date and when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Restoration, rehabilitation and environmental obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when an environmental disturbance is caused by the exploration or development of an exploration and evaluation asset. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

A liability is recognized for legal obligations relating to the restoration, rehabilitation and retirement of property, plant and equipment obligations arising from the acquisition, construction, development or normal operation of those assets. Such decommissioning liabilities are recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset where one is identifiable is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements.

It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations; the extent of environmental remediation required or completed and the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

The Company has no material restoration, rehabilitation and environmental obligations as any environmental disturbance to date has been minimal.

Impairment

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

The Company does not have any provisions for the years presented.

Financial assets

(i) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as FVTPL unless they are designed as effective hedges. Assets in this category include cash.

Financial assets at FVTPL are initially recognized, and subsequently carried, at fair value with changes recognized in profit or loss. Attributable transaction costs are recognized in profit or loss when incurred.

(ii) Financial assets available for sale ("AFS")

Financial assets available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss ("OCI") except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost. The Company does not have any AFS assets.

Financial assets AFS are initially recognized, and subsequently carried at fair value with changes recognized in OCI. Attributable acquisition transaction costs, if any, are recognized in the initial fair value.

(iii) 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 included in current assets, except for those with maturities greater than 12 months or those that are expected to be settled after 12 months from the end of the reporting period, which are classified as non-current assets. Assets in this category include receivables and amounts due from non-controlling interest.

Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is used to determine the amortized cost of loans and receivables and to allocate interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(iv) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(v) De-recognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all of the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The Company has classified trade and other payables as other financial liabilities.

Loss per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted loss per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming 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 effect of outstanding share options and warrants on loss per share would be anti-dilutive.

Share-based compensation

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital.

In situations where equity instruments are issued to non-employees and some or all of the services received by the entity as consideration cannot be specifically identified, they are all measured at the fair value of the share-based payment, otherwise, share-based compensation is measured at the fair value of the services received.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based compensation arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based compensation transactions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Common shares are classified as share capital. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable operations, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Newly adopted accounting standards and interpretations

During the year ended August 31, 2014, the Company adopted the following new accounting standards:

- New standard IFRS 10 *Consolidated Financial Statements*

  Provides a new single consolidation model that identifies control as the basis for consolidation for all types of entities, and replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.*

- New standard IFRS 11 *Joint Arrangements*

  Improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. Such a principle-based approach will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*.

- New standard IFRS 12 *Disclosure of Interests in Other Entities*

  Combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

- New standard IFRS 13 *Fair Value Measurement*

  Defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value.

During the year ended August 31, 2014, the Company adopted the following revised accounting standards:

- Revised standard IAS 27 *Separate Financial Statements*

  As a result of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 27 has been reissued to reflect the change as the consolidation guidance has recently been included in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements.

- IAS 28 *Associates and Joint Ventures*

  As a consequence of the issue of IFRS 11, IAS 28 has been amended and provides the accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The adoption of these new and revised standards did not have a material effect on these consolidated financial statements.

(Expressed in Canadian dollars, except where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of August 31, 2014, and have not been applied in preparing these consolidated financial statements.

Effective for annual periods beginning on or after January 1, 2014

- Amendments to IAS 32, Financial Instruments: Presentation

  IAS 32 is amended to clarify the requirements for offsetting of financial assets and financial liabilities.

Effective for annual periods beginning on or after January 1, 2018

- New standard IFRS 9, Financial Instruments

  IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. This standard simplifies the current measurement model for financial instruments under IFRS and establishes two measurement categories for financial assets: amortized cost and fair value. The existing IAS 39 categories of loans and receivables, held to maturity investments, and available for sale financial assets will be eliminated.

- Amendments to IFRS 7, Financial Instruments: Disclosure

  Amendment to require additional disclosures on transition from IAS 39 to IFRS 9.

The Company has not early adopted these revised standards and none of these standards are expected to have a material effect on the consolidated financial statements.

4. CASH

	August 31, 2014	August 31, 2013
Canadian dollar denominated deposits held in Canada	$ 1,139,611	$ 741,630
US dollar denominated deposits held in Canada	501,085	7,421
US dollar denominated deposits held in Eritrea	74,836	62,322
Nakfa denominated deposits held in Eritrea	25,936	56,878
Ariary denominated deposits held in Madagascar	-	14,974
Total	$ 1,741,468	$ 883,225

(Expressed in Canadian dollars, except where otherwise noted)

5. RECEIVABLES

		August 31, 2014		August 31, 2013
Amounts due from the Government of Canada pursuant to HST input tax credits	$	6,566	$	31,810
Other amounts receivable		9,998		3,115
Total	$	16,564	$	34,925

6. ADVANCES AND PREPAID EXPENSES

		August 31, 2014		August 31, 2013
Advances held by suppliers in Eritrea	$	3,134	$	5,418
Advances held by suppliers in Madagascar		-		14,683
Prepaid expenses in Canada		29,467		21,062
Prepaid expenses in Eritrea		9,847		358
Total	$	42,448	$	41,521

7. DUE FROM NON-CONTROLLING INTEREST

On June 27, 2014, the Company and the Eritrean National Mining Corporation ("ENAMCO") executed a shareholders' agreement (the "Shareholders' Agreement") to organize and operate Asmara Mining Share Company ("AMSC"), the operating entity that will own and operate the Asmara Project in Eritrea. AMSC is owned 60% by Sunridge and 40% by ENAMCO (30% participating and 10% free carried interest) and has a board of directors of five, comprising three from Sunridge and two from ENAMCO.

Pursuant to the Shareholders' Agreement, the Company sold a 40% interest in AMSC to ENAMCO for US$18,330,000 (the "Purchase Price"). In addition, ENAMCO agreed to fund the first $6,517,563 (US$6,108,306) of expenditures on the Asmara Project (the "Contribution Payable"). Subsequently, all future project development or exploration costs will be shared two-thirds Sunridge and one-third ENAMCO.

Payment of the Purchase Price shall be made as follows:

- US$2,000,000 on signing the Shareholders' Agreement
- US$1,000,000 by September 30, 2014
- US$1,000,000 by October 30, 2014
- US$1,000,000 by November 30, 2014

The $5,335,000 (US$5,000,000) was recorded as due from non-controlling interest on the date of sale. In July 2014, the Company received $2,158,850 (US$2,000,000) of this amount and subsequent to year-end the Company received the balance of US$3,000,000.

(Expressed in Canadian dollars, except where otherwise noted)

7. DUE FROM NON-CONTROLLING INTEREST (continued)

The balance of the Purchase Price (US$13,330,000) will be paid in installments beginning upon signing a finance agreement that secures a significant portion of the financing required to develop the Asmara Project (the "Financing Agreement"):

- US$6,000,000 on signing the Financing Agreement
- US$4,000,000 6 months after signing the Financing Agreement
- US$3,330,000 12 months after signing the Financing Agreement

The balance of US$13,330,000 has not been recorded in these consolidated financial statements as collectability is contingent on a Financing Agreement for which the terms and timing are uncertain at this time.

From the date of execution of the Shareholders Agreement until payment of the Purchase Price is made in full, ENAMCO shall pay interest to the Company at a rate of LIBOR plus 3%. Interest income due from ENAMCO as at August 31, 2014 is $18,103. All interest income was received subsequent to year-end.

The Contribution Payable is expected to be contributed to AMSC during fiscal 2015. The Company's 60% benefit of this Contribution Payable is $3,910,538 (US$3,664,984) and this is considered to be part of the consideration received by Sunridge for its 40% sale of AMSC.

The following table presents the dilution gain recorded on the sale of a 40% in AMSC:

Consideration received		
Purchase Price receivable	$	5,335,000
Benefit of Contribution Payable		3,910,538
	$	9,245,538
Net assets of AMSC		
Current assets	$	121,695
Non-current assets		18,760,684
Current liabilities		(389,127)
		18,493,252
Non-controlling interest percentage		40%
	$	7,397,301
Dilution gain on sale of interest in AMSC	$	1,848,237

As there was no change in control of the Company's subsidiary, the dilution gain was recorded directly to deficit.

(Expressed in Canadian dollars, except where otherwise noted)

7. DUE FROM NON-CONTROLLING INTEREST (continued)

The following table presents the due from non-controlling interest as at August 31, 2014:

August 31, 2013	$	-
Sale of interest in AMSC		
Purchase Price receivable		5,335,000
Benefit of Contribution Payable		3,910,538
Accrued interest on Purchase Price receivable		18,103
Benefit of contributions due from non-controlling interest		161,990
Proceeds received on sale of interest in AMSC		(2,158,850)
Foreign exchange		160,149
August 31, 2014	$	7,426,930

The following table presents the equity attributable to non-controlling interest as at August 31, 2014:

August 31, 2013	$	-
Proceeds received on sale of interest in Asmara Project		9,245,538
Dilution gain on sale of interest in AMSC		(1,848,237)
Benefit of contributions due from non-controlling interest		161,990
Share of other comprehensive income		140,684
Share of loss for the year		(14,298)
August 31, 2014	$	7,685,677

8. EXPLORATION AND EVALUATION ASSETS AND MINERAL PROPERTIES

Exploration and evaluation assets, being capitalized acquisition costs of the properties, are summarized below:

		Asmara Project, Eritrea		Besakoa Project, Madagascar		Total
Acquisition Costs						
August 31, 2012	$	18,672,672	$	354,759	$	19,027,431
Write-off		-		(354,759)		(354,759)
August 31, 2013		18,672,672		-		18,672,672
Reallocation		(18,672,672)		-		(18,672,672)
August 31, 2014	$	-	$	-	$	-

(Expressed in Canadian dollars, except where otherwise noted)

8. EXPLORATION AND EVALUATION ASSETS AND MINERAL PROPERTIES (continued)

Components of the Company's mineral properties, being the Asmara Project, as at August 31, 2014 are summarized below:

	Acquisition costs	Development costs	Depreciation capitalized	Translation adjustment	Total
August 31, 2013	$ -	$ -	$ -	$ -	$ -
Reallocation	18,672,672	-	-	-	18,672,672
Additions	-	292,813	9,959	-	302,772
Translation adjustment	-	-	-	356,364	356,364
August 31, 2014	$ 18,672,672	$ 292,813	$ 9,959	$ 356,364	$ 19,331,808

Asmara Project, Eritrea

The Company holds three exploration licenses in Eritrea that comprise the Asmara Project: the Medrizien exploration license on which the Emba Derho and Kodadu deposits are located; the Debarwa exploration license on which the Debarwa and Adi Rassi deposits are located; and the Adi Nefas exploration license on which the Adi Nefas and Gupo deposits are located. The exploration licenses are subject to historical underlying agreements: Albert J. Perry holds a 2% net profits interest on all three licenses; and WMC (Overseas) Pty Limited will be entitled to the first US$860,000 of revenue derived from the sale of any minerals mined from the Debarwa license. These historical underlying agreements are against the Company's 60% interest in AMSC.

In September 2014, the renewal dates for all three exploration licenses that make up the Asmara Project were extended to May 21, 2015.

On June 28, 2013, the Company filed on Sedar a National Instrument 43-101 compliant technical report, entitled *Asmara Project Feasibility Study* dated May 16, 2013. On August 21, 2013, the Company filed an amended technical report dated August 19, 2013 and on April 29, 2014, the Company filed another amendment dated March 27, 2014. Although, the technical reports filed in 2013 demonstrated the technical feasibility and commercial viability of the Asmara Project, there was still uncertainty regarding the future viability of the project since negotiations with ENAMCO were still ongoing. Therefore, the Company was still considered to be in the exploration stage as at August 31, 2013. However, on June 27, 2014, the Company and ENAMCO executed a shareholders' agreement to organize and operate AMSC, the operating entity which will own and operate the Asmara Project. With this agreement, the Asmara Project is now considered to be in the development stage since the uncertainties over negotiations with ENAMCO are complete and therefore the technical feasibility and commercial viability of the extraction of the Asmara Project's mineral reserves has demonstrated. The Company has started to capitalize directly attributable development expenditures that give rise to future economic benefits as of June 27, 2014.

(Expressed in Canadian dollars, except where otherwise noted)

8. EXPLORATION AND EVALUATION ASSETS AND MINERAL PROPERTIES (continued)

Asmara Project, Eritrea (continued)

Besakoa Project, Madagascar

The Company had an option to acquire up to a 100% interest in a mineral exploration property held in Daraina Exploration S.A.R.L. ("Daraina"), a subsidiary of Majescor Resources Inc. ("Majescor"). The Besakoa mineral exploration property is held by Daraina and located in Madagascar. Pursuant to the September 15, 2008 (as amended June 19, 2009) option agreement, the Company earned a 50% interest in the property by having completed the following: issued 500,000 common shares of the Company and incurred $2,000,000 work expenditures by September 15, 2011. During the year ended August 31, 2013, the Company wrote-off exploration and evaluation assets totaling $354,759 as the Company had no plans to continue exploring the Besakoa project.

On January 20, 2014, the Company forfeited its beneficial 50% interest in the Besakoa property to Majescor. Accordingly, the Company has no further ownership, right or entitlements to Daraina or any interest in the Besakoa mineral exploration license.

The following table presents the Company's exploration and evaluation expenditures for the years ended August 31, 2014 and 2013:

	Years ended August 31, 2014	2013
Asmara Project, Eritrea		
Assays	$ 86,910	$ 871,283
Communications	85,748	105,389
Community development	3,343	11,718
Contractors and consultants	1,027,977	5,370,918
Drilling	-	617,240
Environment	287,440	395,990
Equipment rental costs	4,683	40,117
Field support and consumables	61,174	178,705
Salaries	371,711	470,957
Travel and accommodation	163,643	184,239
Vehicle running costs	45,064	107,761
	2,137,693	8,354,317
Besakoa Project, Madagascar		
Assays	-	5,457
Communications	-	734
Contractors and consultants	-	38,864
Field support and consumables	-	14,739
License fees	-	11,549
Professional fees	-	3,152
Travel and accommodation	-	3,139
Vehicle running costs	-	176
	-	77,810
Exploration and evaluation expenditures	$ 2,137,693	$ 8,432,127

(Expressed in Canadian dollars, except where otherwise noted)

9. EQUIPMENT

	Canada		Eritrea				
	Office and computer equipment	Leasehold improvements	Office equipment	Camp buildings and equipment	Communication equipment	Vehicles	Total
Cost							
August 31, 2012	$ 137,510	$ 39,243	$ 110,762	$ 288,305	$ 321,655	$ 310,971	$ 1,208,446
Assets acquired	7,709	-	6,618	20,358	-	-	34,685
August 31, 2013	145,219	39,243	117,380	308,663	321,655	310,971	1,243,131
Assets acquired	-	-	2,913	1,601	-	-	4,514
Translation adjustment	-	-	2,244	5,878	6,120	5,916	20,158
August 31, 2014	$ 145,219	$ 39,243	$ 122,537	$ 316,142	$ 327,775	$ 316,887	$ 1,267,803
Accumulated depreciation							
August 31, 2012	$ 91,871	$ 31,745	$ 78,595	$ 187,563	$ 315,971	$ 273,094	$ 978,839
Depreciation for the year	9,899	1,636	11,531	36,058	5,684	12,949	77,757
August 31, 2013	101,770	33,381	90,126	223,621	321,655	286,043	1,056,596
Depreciation for the year	8,690	1,279	11,437	35,710	-	12,024	69,140
Translation adjustment	-	-	1,902	4,841	6,120	5,639	18,502
August 31, 2014	$ 110,460	$ 34,660	$ 103,465	$ 264,172	$ 327,775	$ 303,706	$ 1,144,238
Carrying amounts							
August 31, 2013	$ 43,449	$ 5,862	$ 27,254	$ 85,042	$ -	$ 24,928	$ 186,535
August 31, 2014	$ 34,759	$ 4,583	$ 19,072	$ 51,970	$ -	$ 13,181	$ 123,565

10. TRADE AND OTHER PAYABLES

	August 31, 2014	August 31, 2013
Trade and other payables in Canada	$ 213,425	$ 188,317
Trade and other payables in Eritrea	340,318	2,519,992
Trade and other payables in Madagascar	-	152
Due to directors	-	40,875
Due to officers	53,286	10,959
Total	$ 607,029	$ 2,760,295

11. SHARE CAPITAL

a) Authorized share capital

Unlimited common shares without par value.

b) Issued share capital

The Company had 209,944,982 common shares issued and outstanding as at August 31, 2014 (2013 – 175,162,728).

Share issuances for the year ended August 31, 2014 were as follows:

- In October 2013, the Company completed a brokered private placement by issuing 19,258,318 units at a price of $0.19 per unit for gross proceeds of $3,659,080. Concurrent with the brokered private placement, the Company also completed a non-brokered private placement by issuing 11,004,841 units at a price of $0.19 per unit for gross proceeds of $2,090,920. Gross proceeds from both of the private placements totalled $5,750,000 through the issuance of 30,263,159 units. Each unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of $0.35 until October 18, 2017.

  In relation to the brokered private placement, the Company paid a commission of $341,010 in cash and issued 1,794,789 broker warrants. Each broker warrant entitles the holder to purchase one unit at a price of $0.19 per unit until October 18, 2017. Additional cash share issue costs were $230,237.

  The broker warrants were issued at a value of $185,104 using the Black-Scholes pricing model using the followings assumptions: a risk free interest rate of 1.68%; an expected volatility of 72%, an expected life of 3.99 years; and an expected dividend of zero.

  In addition, the Company settled outstanding trade and other payables in the aggregate amount of $830,128 by issuing 4,369,095 units on the same terms as above. The parties to the trade and other payables are at arm's length to the Company.

- In May 2014, the Company issued 150,000 common shares on the exercise of options for gross proceeds of $33,000.

Share issuances for the year ended August 31, 2013:

- In October 2012, the Company completed a non-brokered private placement by issuing 49,184,955 units at a price of $0.22 per unit for gross proceeds of $10,820,690. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of $0.35 until October 18, 2017.

  The Company paid finders' fees of $712,181 in cash and issued 3,128,096 finders' options. In October and November 2012, a total of 3,099,667 finders' options were exercised for proceeds of $681,927. Each finders' option entitles the holder to purchase one unit at a price of $0.22 per unit until October 18, 2017. Additional cash share issue costs were $61,962.

  The finders' options were issued at a value of $191,568 using the Black-Scholes pricing model using the followings assumptions: a risk free interest rate of 1.12%; an expected volatility of 70%; an expected life of one year; and an expected dividend of zero.

(Expressed in Canadian dollars, except where otherwise noted)

11. SHARE CAPITAL (continued)

c) Share purchase warrants

The continuity for share purchase warrants for the year ended August 31, 2014 is as follows:

Expiry date	Exercise price	Balance, August 31, 2013	Issued	Exercised	Expired	Balance, August 31, 2014
August 8, 2014	$1.00	1,000,000	-	-	(1,000,000)	-
November 17, 2015	$1.40	19,418,000	-	-	-	19,418,000
October 18, 2017	$0.35	26,142,304	-	-	-	26,142,304
October 18, 2017	$0.35	-	34,632,254	-	-	34,632,254
		46,560,304	34,632,254	-	(1,000,000)	80,192,558
Weighted average exercise price		$0.80	$0.35	$0.00	$1.00	$0.60

The continuity for share purchase warrants for the year ended August 31, 2013 is as follows:

Expiry date	Exercise price	Balance, August 31, 2012	Issued	Exercised	Expired	Balance, August 31, 2013
October 26, 2012	$0.75	9,976,264	-	-	(9,976,264)	-
July 5, 2013	$0.55	864,864	-	-	(864,864)	-
August 8, 2014	$1.00	1,000,000	-	-	-	1,000,000
November 17, 2015	$1.40	19,418,000	-	-	-	19,418,000
October 18, 2017	$0.35	-	26,142,304	-	-	26,142,304
		31,259,128	26,142,304	-	(10,841,128)	46,560,304
Weighted average exercise price		$1.16	$0.35	$0.00	$0.73	$0.80

d) Broker warrants

The continuity for broker warrants for the year ended August 31, 2014 is as follows:

Expiry date	Exercise price	Balance, August 31, 2013	Issued	Exercised	Expired	Balance, August 31, 2014	
October 18, 2017	$0.22	28,429	-	-	-	28,429	*
October 18, 2017	$0.19	-	1,794,789	-	-	1,794,789	**
		28,429	1,794,789	-	-	1,823,218	
Weighted average exercise price		$0.22	$0.19	$0.00	$0.00	$0.19	

* Exercisable into one unit with each unit consisting of one common share and one-half of one common share purchase warrant

** Exercisable into one unit with each unit consisting of one common share and one common share purchase warrant

(Expressed in Canadian dollars, except where otherwise noted)

11. SHARE CAPITAL (continued)

d) Broker warrants (continued)

The continuity for broker warrants for the year ended August 31, 2013 is as follows:

Expiry date	Exercise price	Balance, August 31, 2012	Issued	Exercised	Expired	Balance, August 31, 2013
October 18, 2017	$0.22	-	3,128,096	(3,099,667)	-	28,429
		-	3,128,096	(3,099,667)	-	28,429
Weighted average exercise price		$0.00	$0.22	$0.22	$0.00	$0.22

e) Stock options

The Company has a shareholder approved "rolling" stock option plan (the "Plan") in compliance with the TSX Venture Exchange's policies. Under the Plan the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares at the time of granting. The exercise price of each stock option shall not be less than the market price of the Company's stock at the date of grant.

The continuity for stock options for the year ended August 31, 2014 is as follows:

Expiry date	Exercise price	Balance, August 31, 2013	Granted	Exercised	Expired	Balance, August 31, 2014
September 18, 2013	$0.35	200,000	-	-	(200,000)	-
June 11, 2014	$0.47	1,430,000	-	-	(1,430,000)	-
September 7, 2015	$0.50	312,500	-	-	(37,500)	275,000
November 5, 2015	$1.37	3,125,000	-	-	(775,000)	2,350,000
September 29, 2016	$0.55	4,100,000	-	-	(800,000)	3,300,000
January 9, 2018	$0.22	6,000,000	-	(150,000)	(600,000)	5,250,000
March 12, 2019	$0.26	-	5,300,000	-	(300,000)	5,000,000
August 15, 2017	$0.20	-	300,000	-	-	300,000
		15,167,500	5,600,000	(150,000)	(4,142,500)	16,475,000
Weighted average exercise price		$0.58	$0.26	$0.22	$0.60	$0.47

As at August 31, 2014, 13,975,000 stock options were exercisable.

(Expressed in Canadian dollars, except where otherwise noted)

11. SHARE CAPITAL (continued)

e) Stock options (continued)

The continuity for stock options for the year ended August 31, 2013 is as follows:

Expiry date	Exercise price	Balance, August 31, 2012	Granted	Exercised	Expired	Balance, August 31, 2013
September 9, 2012	$1.55	300,000	-	-	(300,000)	-
January 23, 2013	$1.45	1,390,000	-	-	(1,390,000)	-
April 22, 2013	$0.93	100,000	-	-	(100,000)	-
September 18, 2013	$0.35	200,000	-	-	-	200,000
June 11, 2014	$0.47	1,430,000	-	-	-	1,430,000
September 7, 2015	$0.50	312,500	-	-	-	312,500
November 5, 2015	$1.37	3,200,000	-	-	(75,000)	3,125,000
September 29, 2016	$0.55	4,200,000	-	-	(100,000)	4,100,000
January 9, 2018	$0.22	-	6,000,000	-	-	6,000,000
		11,132,500	6,000,000	-	(1,965,000)	15,167,500
Weighted average exercise price		$0.91	$0.22	$0.00	$1.39	$0.58

f) Share-based compensation

During the year ended August 31, 2014, the Company recorded $944,831 in share-based compensation for options vested during the year. Of the $944,831 recorded, $9,660 was for options that were granted in fiscal 2013 and vested in fiscal 2014, and $935,171 was for options granted and vested in fiscal 2014.

During the year ended August 31, 2013, the Company recorded $890,565 in share-based compensation for options that were granted and vested in fiscal 2013.

In August 2014, the Company granted 300,000 stock options at a fair value of $26,745. The fair value of the options granted was determined using the Black-Scholes pricing model with the following assumptions: a risk free interest rate of 1.31%, an expected volatility of 66%, an expected life ranging of 3 years, and a zero dividend for a weighted average fair value per option of $0.09.

In March 2014, the Company granted 5,300,000 stock options with a fair value of $935,907, of which $908,426 was recorded in the year ended August 31, 2014. The fair value of the options granted was determined using the Black-Scholes pricing model with the following assumptions: a risk free interest rate of 1.43%, an expected volatility of 85%, an expected life ranging of 5 years, and a zero dividend for a weighted average fair value per option of $0.18.

In January 2013, the Company granted 6,000,000 stock options with a fair value of $892,000, of which $9,660 was recorded in the year ended August 31, 2014 (2013 – $890,565). The fair value of the options granted was determined using the Black-Scholes pricing model with the following assumptions: a risk free interest rate of 1.38%, an expected volatility of 92%, an expected life ranging from 4.25 to 5 years, and a zero dividend for a weighted average fair value per option of $0.15.

(Expressed in Canadian dollars, except where otherwise noted)

12. RELATED PARTY TRANSACTIONS

a) The Company's related parties consist of companies owned in whole or in part by executive officers and directors as follows:

Name	Nature of transactions
Golden Oak Corporate Services Ltd.	Consulting for corporate compliance, and financial reporting

The Company incurred the following fees in the normal course of operations in connection with companies owned by key management and directors.

	Years ended August 31,	
	2014	2013
Consulting fees	$ 120,000	$ 120,000

b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel, which include the amounts disclosed above, during the years ended August 31, 2014 and 2013 were as follows:

	Years ended August 31,	
	2014	2013
Salaries	$ 791,250	$ 860,000
Director fees	163,500	163,500
Consulting fees	120,000	120,000
Share-based compensation	744,973	665,829
	$ 1,819,723	$ 1,809,329

Amounts due to related parties are disclosed in Note 10.

13. SEGMENTED INFORMATION

The Company operates only in the mineral exploration and development sector within one geographic segment being the Asmara Project in Eritrea. Notes 8 and 9 provides disclosure of geographic location of capital assets.

(Expressed in Canadian dollars, except where otherwise noted)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; or other liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	August 31, 2014	August 31, 2013
Cash	FVTPL	$ 1,741,468	$ 883,225
Receivables	Loans and receivables	16,564	34,925
Due from non-controlling interest	Loans and receivables	7,426,930	-
Trade and other payables	Other liabilities	(607,029)	(2,760,295)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments consist of cash, receivables, amounts due from non-controlling interest, and trade and other payables. The fair values of receivables, amounts due from non-controlling interest, and trade and other payables approximate their fair value due to their short-term nature. Cash is recorded at fair value using Level 1 of the fair value hierarchy.

Risk Management

The Company's risk exposures and the impact on the Company's consolidated financial instruments are summarized as follows:

Credit Risk
Credit risk is the risk of potential loss to the Company if a 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, receivables, and amounts due from non-controlling interest. The Company limits the exposure to credit risk in its cash by only investing its cash with high-credit quality financial institutions in business and savings accounts, guaranteed investment certificates and in government treasury bills which are available on demand by the Company for its programs. The Company's receivables are primarily related to tax credits receivable from the government of Canada, and as such, credit risk is not considered significant. The Company is exposed to credit risk on amounts due from non-controlling interest. Due from non-controlling interest is collectable from ENAMCO, an Eritrean state owned entity. Subsequent to year-end the Company received US$3,000,000 from ENAMCO in repayment of this amount and management expects the remainder to be collected during fiscal 2015. As a result, the credit risk on amounts due from non-controlling interest is not considered significant.

(Expressed in Canadian dollars, except where otherwise noted)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Risk Management (continued)

Liquidity Risk
Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that there is sufficient capital in order to meet short-term business requirements. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next sixty days.

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. These fluctuations may be significant.

(a) Interest Rate Risk: The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

(b) Foreign Exchange Risk: As at August 31, 2014, the majority of the Company's cash was held in Canada in Canadian and US dollars. The Company's significant operations are carried out in Eritrea. As a result, a portion of the Company's working capital is denominated in Nakfa and United States Dollar and is therefore subject to fluctuation in exchange rates. The government of Eritrea has fixed the exchange rate of Nakfa as 15 Nakfa for one United States Dollar.

At August 31, 2014, the Company is exposed to foreign currency risk through the following financial assets and liabilities held in the following United States dollar equivalents:

Cash	$	553,532
Receivables		1,886
Advances and prepaid expenses		9,256
Due from non-controlling interest		6,280,068
Trade and other payables		(184,816)
	$	6,659,926

Based on the above net exposures at August 31, 2014, a 1% appreciation (depreciation) of the United States dollar against the Canadian dollar, with all other variables held constant, would result in approximately a $73,000 increase (decrease) in profit or loss for the year. The Company has not hedged its exposure to currency fluctuations.

(c) Commodity Price Risk: While the value of the Company's mineral resource properties are related to the price of gold, copper and other metals, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect to its operational activities.

Historically, the price of gold, copper and other metals has fluctuated significantly and is affected by numerous factors outside of the Company's control, including but not limited to industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to gold, copper and other metals.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Risk Management (continued)

Political Uncertainty
In conducting operations in Eritrea, the Company is subject to considerations and risks not typically associated with companies operating in North America. These include risks such as the political, economic and legal environments. Among other things, the Company's results may be adversely affected by changes in the political and social conditions in Eritrea and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

15. MANAGEMENT OF CAPITAL

The Company defines the capital it manages as equity, consisting of common shares, share purchase warrants, broker warrants, and stock options. 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. Management 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 properties in which the Company currently has an interest are in the exploration and development stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to any externally imposed capital restrictions.

16. COMMITMENTS

The Company has obligations under operating leases for its corporate offices until March 2015 as follows.

Fiscal Year		Operating Leases
2015		32,040
Total	$	32,040

(Expressed in Canadian dollars, except where otherwise noted)

17. INCOME TAXES

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

		Years ended August 31, 2014		2013
Loss for the year	$	(5,728,780)	$	(12,449,984)
Expected income tax recovery	$	(1,489,000)	$	(3,164,000)
Change in statutory tax rates and other		(2,518,000)		(912,000)
Permanent differences		224,000		227,000
Share issue costs		(149,000)		(197,000)
Change in unrecognized deductible temporary differences		3,932,000		4,046,000
Income tax expense (recovery)	$	-	$	-

The significant components of the Company's unrecorded deferred tax assets are as follows:

		August 31, 2014		August 31, 2013
Deferred tax assets				
Canadian non-capital losses available for future periods	$	5,651,000	$	4,827,000
Cumulative eligible capital (CEC)		69,000		69,000
Equipment		290,000		273,000
Mineral properties		22,358,000		19,205,000
Share issue costs		372,000		434,000
Total unrecognized deferred tax assets	$	28,740,000	$	24,808,000

Deferred tax assets have not been recognized in these consolidated financial statements as it is not probable that they will be realized.

Significant components of the Company's unrecognized temporary differences and unused tax losses are as follows:

		August 31, 2014	Expiry Date
Canadian non-capital losses available for future periods	$	21,728,000	2025-2034
Cumulative eligible capital (CEC)		267,000	No expiry date
Equipment		1,113,000	No expiry date
Mineral properties		75,275,000	No expiry date
Share issue costs		1,431,000	2015-2018

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