

# **HIGHWAY 50 GOLD CORP.**

*(an exploration stage company)*

## **CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Canadian dollars)*

**FOR THE SIX MONTHS ENDED**

**JUNE 30, 2014**

**(UNAUDITED)**

### *REVIEW OF INTERIM FINANCIAL STATEMENTS*

*Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.*

*The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by management. The Company's independent auditor has not performed a review of the accompanying unaudited interim condensed consolidated financial statements in accordance with standards established by the CICA for a review of interim financial statements by an entity's auditor.*

**Highway 50 Gold Corp.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Unaudited – Prepared by Management)  
Canadian funds

|   | June 30, 2014      | December 31, 2013  |
|---|--------------------|--------------------|
| <b>ASSETS</b>                                     |                    |                    |
| <b>Current assets</b>                             |                    |                    |
| Cash and cash equivalents (Note 4)                | \$ 2,325,609       | \$ 524,060         |
| Receivables (Note 5)                              | 42,952             | 1,926              |
| Prepaid expenses (Note 6)                         | <u>-</u>           | <u>21,320</u>      |
|   | 2,368,561          | 547,306            |
| <b>Equipment</b>                                  | 29,463             | 1,839              |
| <b>Reclamation bonds (Note 7)</b>                 | 44,453             | 44,311             |
| <b>Exploration and evaluation assets (Note 8)</b> | <u>1,721,212</u>   | <u>1,665,498</u>   |
|   | \$ 4,163,689       | \$ 2,258,954       |
| <b>LIABILITIES AND EQUITY</b>                     |                    |                    |
| <b>Current liabilities</b>                        |                    |                    |
| Accounts payable and accrued liabilities (Note 9) | \$ 7,120           | \$ 62,776          |
| Due to related parties (Note 11)                  | <u>99,018</u>      | <u>335,344</u>     |
|   | <u>106,138</u>     | <u>398,120</u>     |
| <b>Equity</b>                                     |                    |                    |
| Capital Stock (Note 10)                           | 5,945,671          | 3,424,188          |
| Share compensation reserve (Note 10)              | 692,981            | 668,659            |
| Deficit   | <u>(2,581,101)</u> | <u>(2,232,013)</u> |
|   | <u>4,057,551</u>   | <u>1,860,834</u>   |
|   | \$ 4,163,689       | \$ 2,258,954       |

**Nature and continuance of operations** (Note 1)

**On behalf of the Board:**

*"Gordon P. Leask"*

\_\_\_\_\_  
Gordon P. Leask

*"Megan Cameron-Jones"*

\_\_\_\_\_  
Megan Cameron-Jones

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

**Highway 50 Gold Corp.****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE LOSS**

(Unaudited – prepared by management)

For the period ended June 30 – Canadian Funds

|   | 2014                   |                     | 2013                   |                     |
|---|------------------------|---------------------|------------------------|---------------------|
|   | <u>Quarter to Date</u> | <u>Year to Date</u> | <u>Quarter to Date</u> | <u>Year to Date</u> |
| Accounting and audit fees                             | \$ 15,300              | \$ 15,300           | \$ 17,850              | \$ 17,850           |
| Amortization  | 1,220                  | 2,439               | 102                    | 102                 |
| Bank charges and interest                             | 122                    | 369                 | 132                    | 269                 |
| Consulting fees                                       | 66,321                 | 101,591             | 18,130                 | 37,971              |
| Share-based compensation                              | -                      | 24,322              | -                      | -                   |
| Investor relations and shareholder info               | 1,833                  | 7,698               | 11,102                 | 16,967              |
| Legal   | 2,588                  | 3,628               | 1,050                  | 1,070               |
| Office and administration                             | 46,899                 | 77,367              | 19,406                 | 50,208              |
| Rent  | 6,000                  | 12,065              | 5,463                  | 9,963               |
| Transfer agent and listing fees                       | 3,193                  | 10,940              | \$ 1,125               | \$ 9,018            |
| <b>LOSS BEFORE OTHER ITEMS</b>                        | (143,476)              | (255,719)           | (74,360)               | (143,418)           |
| Gain (loss) on foreign exchange                       | (83,502)               | (95,138)            | 14,151                 | 22,588              |
| Interest income                                       | 1,235                  | 1,769               | 1,068                  | 2,276               |
| <b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b> | \$ (225,743)           | \$ (349,088)        | \$ (59,141)            | \$ (118,554)        |
| Loss per common share - basic and diluted             | \$ (0.008)             | \$ (0.01)           | \$ (0.003)             | \$ (0.006)          |
| Weighted average number of common shares outstanding  | 26,697,570             | 24,437,965          | 19,646,045             | 19,646,045          |

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

**Highway 50 Gold Corp.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF EQUITY**  
(Unaudited – prepared by management)  
For the period ended June 30 – Canadian Funds

|                                   | Number of<br>Shares | Capital<br>Stock | Share<br>Compensation<br>Reserve | Deficit        | Total        |
|-----------------------------------|---------------------|------------------|----------------------------------|----------------|--------------|
| <b>Balance, December 31, 2012</b> | 19,646,045          | \$ 3,424,188     | \$ 668,659                       | \$ (1,997,069) | \$ 2,095,778 |
| Net loss for the period           |                     |                  |                                  | (126,497)      | (126,497)    |
| <b>Balance, June 30, 2013</b>     | 19,646,045          | \$ 3,424,188     | \$ 668,659                       | \$ (1,883,732) | \$ 2,209,115 |

|                                   | Number of<br>Shares | Capital<br>Stock | Share<br>Compensation<br>Reserve | Deficit        | Total        |
|-----------------------------------|---------------------|------------------|----------------------------------|----------------|--------------|
| <b>Balance, December 31, 2012</b> | 19,646,045          | \$ 3,424,188     | \$ 668,659                       | \$ (1,997,069) | \$ 2,095,778 |
| Net loss for the year             | -                   | -                | -                                | (234,944)      | (234,944)    |
| <b>Balance, December 31, 2013</b> | 19,646,045          | 3,424,188        | 668,659                          | (2,232,013)    | 1,860,834    |
| Shares issued for:                |                     |                  |                                  |                |              |
| Private placement                 | 7,027,025           | 2,599,999        |                                  |                | 2,599,999    |
| Finders' units                    | 24,500              |                  |                                  |                |              |
| Private placement expense         |                     | (78,516)         |                                  |                | (78,516)     |
| Share-based compensation          |                     |                  | 24,322                           |                | 24,322       |
| Net loss for the period           |                     |                  |                                  | (349,088)      | (349,088)    |
| <b>Balance, June 30, 2014</b>     | 26,697,570          | \$ 5,945,671     | \$ 692,981                       | \$ (2,581,101) | \$ 4,057,551 |

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

**Highway 50 Gold Corp.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited – prepared by management)  
For the period ended June 30 – Canadian Funds

|   | 2014 Year to Date   | 2013 Year to Date |
|---|---------------------|-------------------|
| <b>Cash Flows from Operating Activities</b>                 |                     |                   |
| Net loss for the period                                     | \$ (349,088)        | \$ (118,554)      |
| Items not affecting cash:                                   |                     |                   |
| Amortization  | 2,439               | 102               |
| Share-based compensation                                    | 24,322              | -                 |
| Foreign exchange  | (142)               | -                 |
| Changes in non-cash working capital items:                  |                     |                   |
| Decrease in prepaid expenses                                | 21,320              | 41,036            |
| Increase in receivables                                     | (41,026)            | (2,248)           |
| Increase (decrease) in accts payables & accrued liabilities | (44,248)            | 11,913            |
| Increase (decrease) in due to related parties               | (236,326)           | 57,410            |
| Net cash provided by (used in) operating activities         | (622,749)           | (10,341)          |
| <b>Cash Flows from Financing Activities</b>                 |                     |                   |
| Issuance of common shares                                   | 2,599,999           | -                 |
| Share issue costs   | (78,516)            | -                 |
| Net cash used in financing activities                       | 2,521,483           | -                 |
| <b>Cash Flows from Investing Activities</b>                 |                     |                   |
| Acquisition of equipment                                    | (30,063)            | (2,043)           |
| Acquisition of exploration and evaluation assets            | (67,122)            | (47,556)          |
| Net cash used in investing activities                       | (97,185)            | (49,599)          |
| <b>Increase (decrease) in Cash &amp; Cash Equivalents</b>   | <b>1,801,549</b>    | <b>(59,940)</b>   |
| <b>Cash &amp; Cash Equivalents – Beginning of Period</b>    | <b>524,060</b>      | <b>773,395</b>    |
| <b>Cash &amp; Cash Equivalents – End of Period</b>          | <b>\$ 2,325,609</b> | <b>\$ 713,455</b> |
| <b>Cash paid during the period for interest</b>             | <b>\$ -</b>         | <b>\$ -</b>       |
| <b>Cash paid during the period for income taxes</b>         | <b>\$ -</b>         | <b>\$ -</b>       |

Supplemental disclosure with respect to cash flows (Note 12)

## Highway 50 Gold Corp.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

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#### 1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated on June 9, 2004 under the Business Corporations Act of the Province of British Columbia under the name Tatmar Ventures Inc. The name was changed to Highway 50 Gold Corp. in July 2011. Since incorporation, the Company's activities have focused on exploration and evaluation assets located in British Columbia and Nevada, USA. The Company's registered and records office is at Suite 3350, 1055 Dunsmuir Street, Vancouver, BC, V7X 1L2. The Company's head office is at Suite 2300, 1177 West Hastings Street, Vancouver, BC, V6E 2K3.

At the date of these interim condensed consolidated financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its exploration and evaluation assets. The ability of the Company to realize the costs it has incurred to date on these exploration and evaluation assets is dependent upon the Company being able to identify a commercial ore body, to finance its exploration costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the exploration and evaluation assets. To date, the Company has not earned revenues and is considered to be in the exploration stage.

These interim condensed consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern.

These interim condensed consolidated financial statements were authorized by the audit committee and board of directors of the Company on August 28, 2014.

#### 2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Accordingly, they do not include all of the information and disclosures required by IFRS for annual consolidated financial statements.

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of application as the Company's most recent annual audited consolidated financial statements. They should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2013, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these interim condensed consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these interim condensed consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates.

**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

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**2. BASIS OF PREPARATION (cont'd...)**

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

*Carrying value and recoverability of exploration and evaluation assets*

The carrying amount of Company's exploration and evaluation assets properties does not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows.

*Functional currencies*

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. That of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

*Fair value of stock options and warrants*

Determining the fair value of warrants and stock options requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of shareholders' equity.

*Income taxes*

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

## Highway 50 Gold Corp.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

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### 3. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of consolidation**

These interim condensed consolidated financial statements include the financial statements of the Company and the entity controlled by the Company (Note 11). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the interim condensed consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

#### **Foreign exchange**

The functional currency is the currency of the primary economic environment in which the entity operations and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors indentified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

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

#### **Financial instruments**

##### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statement of operations & comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of operations & comprehensive loss.



## Highway 50 Gold Corp.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of operations & comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

#### Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statement of operations & comprehensive loss.

*Other financial liabilities*: This category includes amounts due to related parties and accounts payables and accrued liabilities which are recognized at amortized cost.

The Company has classified its cash and cash equivalents as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

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

Costs related to the acquisition, exploration and development of mineral properties are capitalized by property until the commencement of commercial production. Each of the Company's mineral properties is considered to be a cash generating unit. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and development costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on deposit and highly liquid short-term interest bearing variable rate investments, which are readily convertible into a known amount of cash.

**Impairment**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

**Provision for environmental rehabilitation**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral properties and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as the exploration and evaluation assets.

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

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the consolidated statement of operations and comprehensive loss for the period.

**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

**Share-based compensation**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

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

**Income taxes**

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

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities which affect neither accounting nor taxable loss as well as differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Recent accounting pronouncements**Effective for annual periods beginning on or after January 1, 2014:*Amended standard IAS 32 Financial Instruments: Presentation*

The amendments to IAS 32 pertained to the application guidance on the offsetting of financial assets and financial liabilities.

Effective for annual periods beginning on or after January 1, 2015:*Amended standard IFRS 7 Financial Instruments: Disclosures*

The amendments to IFRS 7 outlines the disclosures required when initially applying *IFRS 9 Financial Instruments*.

*New standard IFRS 9 Financial Instruments*

Partial replacement

The Company is currently evaluating the impact of these new and amended standards on its financial statements.

**4. CASH AND CASH EQUIVALENTS**

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|                           | Jun 30, 2014 | Dec 31, 2013  |
|---------------------------|--------------|---------------|
| Cash on deposit           | \$ 2,325,609 | \$ 449,060    |
| Liquid short term deposit | <u>-</u>     | <u>75,000</u> |
|                           | \$ 2,325,609 | \$ 524,060    |

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**5. RECEIVABLES**

The Company's receivables arise from goods and services sales tax ("GST") receivable from Canadian government taxation authorities and accrued interest receivable on liquid short term deposits. These are broken down as follows:

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|                     | Jun 30, 2014 | Dec 31, 2013 |
|---------------------|--------------|--------------|
| GST receivable      | \$ 42,952    | \$ 1,770     |
| Interest receivable | <u>-</u>     | <u>156</u>   |
|                     | \$ 42,952    | \$ 1,926     |

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**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

**6. PREPAID EXPENSES**

The prepaid expenses for the Company are broken down as follows:

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|                     | Jun 30, 2014 | Dec 31, 2013 |
|---------------------|--------------|--------------|
| Option pre-payment  | \$ -         | \$ 21,274    |
| Vendor pre-payments | -            | 46           |
|                     | \$ -         | \$ 21,320    |

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**7. RECLAMATION BONDS**

The Company is required to post bonds with the Bureau of Land Management (“BLM”) as security towards future site restoration work and will be released to the Company upon satisfactory completion of that work. The bonds posted relate to the Golden Brew Property and the Porter Canyon Property (Note 8).

**8. EXPLORATION AND EVALUATION ASSETS**

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|                        | As at June 30, 2014 |              |              |
|------------------------|---------------------|--------------|--------------|
|                        | Direct              | Written-off  | Total        |
| Golden Brew Property   | \$ 1,041,023        | \$ -         | \$ 1,041,023 |
| Porter Canyon Property | 578,499             | -            | 578,499      |
| Other                  | 570,098             | (468,408)    | 101,690      |
|                        | \$ 2,189,620        | \$ (468,408) | \$ 1,721,212 |

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|                        | As at December 31, 2013 |              |              |
|------------------------|-------------------------|--------------|--------------|
|                        | Direct                  | Written-off  | Total        |
| Golden Brew Property   | \$ 1,040,058            | \$ -         | \$ 1,040,058 |
| Porter Canyon Property | 524,994                 | -            | 524,994      |
| Other                  | 568,854                 | (468,408)    | 100,446      |
|                        | \$ 2,133,906            | \$ (468,408) | \$ 1,665,498 |

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**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

**8. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

|                         | Balance,<br>Dec 31, 2013 | Additions | Balance,<br>Jun 30, 2014 |
|-------------------------|--------------------------|-----------|--------------------------|
| Field operations        | \$ 308,589               | \$ 54,582 | \$ 363,171               |
| Assays                  | 65,369                   | 324       | 65,693                   |
| Administrative services | 14,351                   | -         | 14,351                   |
| Drilling                | 612,338                  | -         | 612,338                  |
| Geology and mapping     | 165,834                  | -         | 165,834                  |
| Geophysics              | 168,556                  | -         | 168,556                  |
| Roads and line-cutting  | 45,047                   | -         | 45,047                   |
| Acquisition fees        | 777,536                  | 808       | 778,344                  |
| Exploration tax credit  | (23,714)                 | -         | (23,714)                 |
|                         | 2,133,906                | 55,714    | 2,189,620                |
| Less: write-offs        | (468,408)                | -         | (468,408)                |
|                         | \$ 1,665,498             | \$ 55,714 | \$ 1,721,212             |

**Golden Brew Property**

The Company executed a mining lease agreement with an option to earn a 100% right, title and interest in the Golden Brew Property located in Nevada, USA. The Golden Brew claims are situated in the Battle Mountain Mining District. During a prior period, the Company staked additional claims in the area of interest.

The terms of the mining lease agreement with Genesis Gold Corporation (“Genesis”) include an initial payment to Genesis of US\$10,000 and subsequent escalating annual lease payments. The Company has an option to acquire a 100% interest in the Golden Brew Property for the purchase price of US\$2,000,000, subject to a 2% net smelter returns royalty. All lease payments will be applied to the purchase price. The royalty will be reduced to 1% of net smelter returns at such time as the Company has paid US\$4,000,000 to Genesis in royalty payments.

To maintain the mining lease agreement, the Company must make the following lease payments:

|  | Annual Lease Payments (US\$) |
|--|------------------------------|
| On January 5, 2010 (paid)                            | \$ 10,000                    |
| On or before January 5, 2011 (paid)                  | 15,000                       |
| On or before January 5, 2012 (paid)                  | 25,000                       |
| On or before January 5, 2013 (paid)                  | 35,000                       |
| On or before January 5, 2014 (paid)                  | 20,000                       |
| On or before January 5, 2015                         | 20,000                       |
| On or before January 5, 2016 through January 5, 2019 | 50,000                       |
| Each anniversary thereafter                          | 75,000                       |

**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

**8. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

During the period, the Company entered into a definitive Option Agreement with Regulus Resources Inc. (“Regulus”) whereby Regulus may acquire a 50% option in the Golden Brew Property (the “Option”). In order to exercise the Option, Regulus must, among other things, spend US\$5,000,000 on exploration expenditures on the project over 5 years, and assume the underlying third party lease payments to Genesis and claim holding costs. Exploration expenditures of US\$500,000 in the first year is a firm commitment. Upon earn-in the parties will form a joint venture on a 50/50 basis. In addition, as an integral part of the grant of the Option, Regulus subscribed for \$740,000 worth of units in the Company’s private placement which closed in February 2014.

**9. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities for the Company are broken down as follows:

|                     | Jun 30, 2014 | Dec 31, 2013 |
|---------------------|--------------|--------------|
| Trade payables      | \$ 7,120     | \$ 52,717    |
| Accrued liabilities | -            | 10,059       |
|                     | \$ 7,120     | \$ 62,776    |

All payables and accrued liabilities for the Company fall due within the next 12 months.

**10. CAPITAL STOCK AND SHARE COMPENSATION RESERVE****Authorized**

Unlimited number of common shares without par value. All issued shares are fully paid.

**Stock options**

Under the Company’s rolling stock option plan dated June 2, 2005, the Company may grant options, with a maximum term of five years, for up to 10% of the Company’s issued and outstanding common shares, to directors, employees and consultants at exercise prices to be determined by the market value on the date of grant. Vesting of options is made at the discretion of the Board of Directors at the time the options are granted with the exception of options granted in relation to investor relations. Options granted to consultants engaged in investor relations activities must vest no earlier than as to one-quarter upon the grant date and as to a further one-quarter after each of the following three four-month periods.

**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

**10. CAPITAL STOCK AND SHARE COMPENSATION RESERVE (cont'd...)**

Stock option transactions and the number of stock options outstanding are summarized as follows:

|  | Number<br>of Options | Weighted Average<br>Exercise<br>Price |
|--|----------------------|---------------------------------------|
| Balance, December 31, 2013 and June 30, 2014 | 1,850,000            | \$ 0.42                               |
| Number of options currently exercisable      | 1,850,000            | \$ 0.42                               |

At June 30, 2014, the following incentive stock options were outstanding to directors, officers and employees:

| Number<br>of Options<br>Outstanding | Exercise<br>Price | Expiry Date        | Number of<br>Options<br>Exercisable |
|-------------------------------------|-------------------|--------------------|-------------------------------------|
| 1,275,000                           | \$ 0.35           | January 25, 2015   | 1,275,000                           |
| 100,000                             | 0.48              | September 10, 2015 | 100,000                             |
| <u>475,000</u>                      | 0.61              | December 2, 2015   | <u>475,000</u>                      |
| <u>1,850,000</u>                    |                   |                    | <u>1,850,000</u>                    |

**Warrants**

Warrant transactions and the number of warrants outstanding are summarized as follows:

|                            | Number<br>of Warrants | Expiry<br>Date | Weighted<br>Average<br>Exercise<br>Price |
|----------------------------|-----------------------|----------------|--|
| Balance, December 31, 2012 | 1,745,000             | -              | -  |
| Warrants expired           | <u>(1,745,000)</u>    | Nov 19, 2013   | <u>\$ 0.65</u>                           |
| Balance, December 31, 2013 | -                     | -              | -  |
| Warrants granted           | 7,027,025             | Feb 28, 2015   | \$ 0.60                                  |
| Finders' Units granted     | 24,500                | Feb 28, 2015   | \$ 0.60                                  |
| Finders' Options granted   | <u>128,100</u>        | Feb 28, 2015   | <u>\$ 0.45</u>                           |
| Balance, June 30, 2014     | 7,179,625             | -              | \$ 0.60                                  |



**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

**10. SHARE CAPITAL** (cont'd...)**Share-based compensation**

The Company recognizes compensation for all stock options and warrants granted using the fair value based method of accounting. During the period ended June 30, 2014, the Company recognized \$24,322 (June 30, 2013 – \$Nil) in share-based compensation expenses with respect to options vested during the period.

During the period ended June 30, 2014, the Company granted no stock options.

**11. RELATED PARTY TRANSACTIONS**

The consolidated financial statements include the financial statements of the Company and its subsidiary listed in the following table:

| Name of Subsidiary  | Country of Incorporation | Proportion of Ownership Interest | Principal Activity  |
|---|--------------------------|----------------------------------|---------------------|
| Highway 50 Gold (US) Corp.<br>[formerly Tatmar Ventures<br>(US) Inc.] | Nevada, USA              | 100%                             | Mineral exploration |

All transactions with related parties are in the normal course of operations and are measured at their fair value as determined by management.

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

- a) Eagle Putt Ventures Inc. (“Eagle Putt”) is a private company controlled by Mr. Gordon P. Leask, a director and officer to the Company. For the six months ended June 30, 2014, Eagle Putt was paid \$44,000 (six months ended June 30, 2013 - \$12,000). Amounts paid to Eagle Putt are classified as consulting fees in the consolidated statements of operations and comprehensive loss.

At June 30, 2014, the Company owed \$Nil (2013 - \$5,290) to Eagle Putt.

- b) Rangefront Exploration Corp. (“Rangefront”) is a private company controlled by Mr. John M. Leask, a director to the Company. For the six months ended June 30, 2014, Rangefront was paid \$44,000 (six months ended June 30, 2013 - \$12,000). Amounts paid to Rangefront are classified as consulting fees in the consolidated statements of operations and comprehensive loss.

At June 30, 2014, the Company owed \$Nil (2013 - \$5,269) to Rangefront.

**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

**11. RELATED PARTY TRANSACTIONS** (cont'd...)

- c) Cerro Rico Management Corp. ("Cerro Rico") is a private company controlled by Megan Cameron-Jones, a director and an officer to the Company. For the six months ended June 30, 2014, Cerro Rico was paid \$12,391 (six months ended June 30, 2013 – \$12,923) for consulting services. Amounts paid to Cerro Rico are classified as consulting fees in the consolidated statements of operations and comprehensive loss. The Company also paid or accrued \$30,000 (six months ended June 30, 2013 - \$30,000) to Cerro Rico for administrative fees, \$3,292 (six months ended June 30, 2013 – \$3,336) for fees and taxes, both classified as office and administration in the consolidated statements of operations and comprehensive loss and \$Nil (six months ended June 30, 2013 - \$4,963) classified as rent in the consolidated statements of operations and comprehensive loss.

At June 30, 2014, the Company owed \$99,018 (2013 - \$252,517) to Cerro Rico.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and are covered by signed agreements. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Key management personnel compensation:

|                         | Six Months Ended Jun 30, 2014 |                |                      | Six Months Ended Jun 30, 2013 |                |                      |
|-------------------------|-------------------------------|----------------|----------------------|-------------------------------|----------------|----------------------|
|                         | Salaries                      | Other Payments | Share-based Benefits | Salaries                      | Other Payments | Share-based Benefits |
| Chief Executive Officer | \$ -                          | \$ 44,000      | \$ -                 | \$ -                          | \$ 12,000      | \$ -                 |
| Corporate Secretary     | -                             | 12,391         | -                    | -                             | 12,923         | -                    |
| Total                   | \$ -                          | \$ 56,391      | \$ -                 | \$ -                          | \$ 24,923      | \$ -                 |

**12. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

The significant non-cash transaction for the period ended June 30, 2014 included \$6,506 (December 31, 2013 - \$28,271; June 30, 2013 - \$Nil) in accounts payable and accrued liabilities related to exploration and evaluation assets.

**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

**13. SEGMENT INFORMATION**

The Company operates in one reportable operating segment, being the acquisition and exploration of mineral properties in North America. Geographical information is as follows:

|                   | Total<br>Assets  | Equipment     | Exploration and<br>Evaluation<br>Assets | Reclamation<br>Bonds | Other<br>Assets |
|-------------------|------------------|---------------|---|----------------------|-----------------|
| June 30, 2014     |                  |               |   |                      |                 |
| Canada            | \$ 2,370,216     | \$ 1,655      | \$ -                                    | \$ -                 | \$ 2,368,561    |
| United States     | <u>1,793,473</u> | <u>27,808</u> | <u>1,721,212</u>                        | <u>44,453</u>        | <u>-</u>        |
|                   | \$ 4,163,689     | \$ 29,463     | \$ 1,721,212                            | \$ 44,453            | \$ 2,368,561    |
| December 31, 2013 |                  |               |   |                      |                 |
| Canada            | \$ 549,145       | \$ 1,839      | \$ -                                    | \$ -                 | \$ 547,306      |
| United States     | <u>1,709,809</u> | <u>-</u>      | <u>1,665,498</u>                        | <u>44,311</u>        | <u>-</u>        |
|                   | \$ 2,258,954     | \$ 1,839      | \$ 1,665,498                            | \$ 44,311            | \$ 547,306      |

**14. FINANCIAL AND CAPITAL RISK MANAGEMENT**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, prepaid expenses, accounts payable and accrued liabilities, and due to related parties approximate carrying value, which is the amount payable on the consolidated statements of financial position. The Company's other financial instrument, cash and cash equivalents, under the fair value hierarchy, are based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held at large Canadian financial institutions in interest bearing accounts. The Company has no investment in asset backed commercial paper.

**Highway 50 Gold Corp.**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

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**14. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

The Company's receivables consist of GST due from the government of Canada and interest receivable on short-term investments held by the Company's bank. As such, the Company does not believe it is subject to significant credit risk.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2014, the Company had a cash and cash equivalents balance of \$2,325,609 (December 31, 2013 - \$524,060) to settle current liabilities of \$106,138 (December 31, 2013 - \$398,120). Management believes that it has sufficient funds to meet its current liabilities as they become due.

*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.

## a) Interest rate risk

The Company has cash balances and interest-bearing investments. The interest earned on the investments approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at June 30, 2014, the Company had a total of \$Nil in investment-grade short-term deposit certificates.

The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because of the short-term nature of these investments.

## b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents and accounts payable and accrued liabilities that are denominated in United States dollars ("US\$"). A 10% fluctuation in the US\$ against the Canadian dollar would affect net loss for the period by approximately \$228,000.

## c) Price risk

The Company is not exposed to significant price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

*Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity.

**Highway 50 Gold Corp.**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – prepared by management)

For the period ended June 30, 2014

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**14. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.