

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**

**Consolidated Financial Statements**  
**December 31, 2013 and 2012**  
**(Expressed in Canadian Dollars)**

<b><u>Index</u></b>	<b><u>Page</u></b>
<b>Independent Auditors' Report to the Shareholders</b>	<b>1</b>
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Comprehensive Loss	3
Consolidated Statements of Changes in Shareholders' Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 – 27

**INDEPENDENT AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF SPANISH MOUNTAIN GOLD LTD.**

We have audited the accompanying consolidated financial statements of Spanish Mountain Gold Ltd., which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

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

*Smythe Ratcliffe LLP*

Chartered Accountants

Vancouver, British Columbia  
April 22, 2014

**Spanish Mountain Gold Ltd.**  
**(An Exploration Stage Company)**  
**Consolidated Balance Sheets**  
**(Expressed in Canadian Dollars)**  
**As at December 31**

	Note	2013	2012
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 373,592	\$ 3,718,025
Accounts receivable		60,785	142,117
Tax credit receivable	9	2,195,149	2,764,651
Prepaid expenses and deposits		98,421	249,887
		2,727,947	6,874,680
<b>Mineral Properties</b>	6	75,666,501	76,759,160
<b>Property and Equipment</b>	7	1,147,289	1,235,394
<b>Deposits for Reclamation</b>		117,000	117,000
		\$ 79,658,737	\$ 84,986,234
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	10	\$ 1,285,498	\$ 2,042,105
Flow-through premium	8	106,164	-
		1,391,662	2,042,105
<b>Deferred Income Taxes</b>	9	3,282,185	3,623,233
		4,673,847	5,665,338
<b>Shareholders' Equity</b>			
<b>Capital Stock</b>	8	85,981,249	85,077,100
<b>Warrants Reserve</b>	8(d)	359,629	246,384
<b>Share-Based Payments Reserve</b>	8(e)	3,876,906	3,745,211
<b>Deficit</b>		(15,232,894)	(9,747,799)
		74,984,890	79,320,896
		\$ 79,658,737	\$ 84,986,234

Approved on behalf of the Board:

*"Christopher Lattanzi"*  
..... Director  
Christopher Lattanzi

*"Morris Beattie"*  
..... Director  
Morris Beattie

**Spanish Mountain Gold Ltd.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**(Expressed in Canadian Dollars)**  
**Years Ended December 31**

	Note	2013	2012
<b>Expenses</b>			
Salaries and wages	10	\$ 756,341	\$ 762,192
Consulting fees	10	263,335	272,803
Share-based payments	8, 10	230,152	1,148,222
Rent		151,752	121,461
Legal and accounting		84,032	124,143
Insurance		60,963	58,447
Investor relations		42,980	246,764
Travel, meals and accommodations		42,034	189,414
Transfer agent and filing fees		38,294	48,807
Office and miscellaneous		34,222	79,714
Amortization		30,431	27,319
<b>Loss Before Other Items</b>		<b>(1,734,536)</b>	<b>(3,079,286)</b>
<b>Other Items</b>			
Interest and other income		24,435	95,354
Impairment loss on mineral properties	6	(4,312,775)	(839,851)
Flow-through financing costs	9	(13,538)	-
<b>Loss Before Deferred Income Taxes</b>		<b>(6,036,414)</b>	<b>(3,823,783)</b>
<b>Deferred Income Tax Recovery (Expense)</b>	9	<b>452,862</b>	<b>(281,811)</b>
<b>Net Loss and Comprehensive Loss for Year</b>		<b>\$ (5,583,552)</b>	<b>\$ (4,105,594)</b>
<b>Loss Per Share, basic and fully diluted</b>		<b>\$ (0.03)</b>	<b>\$ (0.02)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>		<b>191,736,265</b>	<b>170,565,189</b>

## Spanish Mountain Gold Ltd.

(An Exploration Stage Company)

### Consolidated Statement of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Number of Common Shares	Capital Stock	Warrants Reserve	Share-Based Payments Reserve	Deficit	Total Equity
<b>Balance, December 31, 2011</b>	166,085,438	\$ 79,264,600	\$ -	\$ 3,985,063	\$ (7,030,279)	\$ 76,219,384
Shares issued for property acquisition	2,000,000	740,000	-	-	-	740,000
Issued for cash						
Private placement, net of share issue costs	8,212,808	2,250,663	246,384	-	-	2,497,047
Exercise of warrants	12,021,030	2,821,837	-	-	-	2,821,837
Fair value of expired options	-	-	-	(1,388,074)	1,388,074	-
Share-based payments	-	-	-	1,148,222	-	1,148,222
Net loss for year	-	-	-	-	(4,105,594)	(4,105,594)
<b>Balance, December 31, 2012</b>	188,319,276	85,077,100	246,384	3,745,211	(9,747,799)	79,320,896
Issued for cash						
Private placement, net of share issue costs	13,128,430	1,122,127	113,245	-	-	1,235,372
Fair value of expired options	-	-	-	(98,457)	98,457	-
Premium on issue of flow-through shares (Note 8)	-	(217,978)	-	-	-	(217,978)
Share-based payments	-	-	-	230,152	-	230,152
Net loss for year	-	-	-	-	(5,583,552)	(5,583,552)
<b>Balance, December 31, 2013</b>	201,447,706	\$ 85,981,249	\$ 359,629	\$ 3,876,906	\$ (15,232,894)	\$ 74,984,890

**Spanish Mountain Gold Ltd.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**  
**Years Ended December 31**

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Net loss for year	\$ (5,583,552)	\$ (4,105,594)
Items not involving cash		
Share-based payments	230,152	1,148,222
Amortization	30,431	27,319
Impairment loss on mineral properties	4,312,775	839,851
Gain on sale of property and equipment	(750)	-
Deferred income tax (recovery) expense	(452,862)	281,811
	<b>(1,463,806)</b>	<b>(1,808,391)</b>
Changes in non-cash working capital		
Accounts receivable	81,332	398,132
Prepaid expenses and deposits	151,466	(106,017)
Accounts payable and accrued liabilities	(253,593)	(543,994)
	<b>(20,795)</b>	<b>(251,879)</b>
<b>Cash Used in Operating Activities</b>	<b>(1,484,601)</b>	<b>(2,060,270)</b>
<b>Financing Activity</b>		
Shares issued for cash, net of issue costs	1,235,372	5,318,884
<b>Investing Activities</b>		
Expenditures on mineral properties	(3,805,250)	(17,004,990)
Mining exploration tax credit received	711,856	274,900
Proceeds from sale of property and equipment	3,000	7,143
Purchase of property and equipment	(4,810)	(108,609)
<b>Cash Used in Investing Activities</b>	<b>(3,095,204)</b>	<b>(16,831,556)</b>
<b>Increase (Decrease) in Cash</b>	<b>(3,344,433)</b>	<b>(13,572,942)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>3,718,025</b>	<b>17,290,967</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 373,592</b>	<b>\$ 3,718,025</b>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ -	\$ 2,767
Non-cash items:		
Mineral properties included in accounts payable	\$ 973,253	\$ 1,476,268
Amortization included in mineral properties	\$ 60,233	\$ 61,033
Shares issued for mineral properties	\$ -	\$ 740,000

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Spanish Mountain Gold Ltd. (the "Company") is a resource exploration stage company incorporated under the *Business Corporations Act of Alberta* and continued into British Columbia under the *Business Corporations Act of British Columbia*. The address of the Company's registered office is Suite 1500 - 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Accordingly, these consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

As the Company is a resource exploration stage company, it does not generate any revenue and has been relying on equity-based financing to fund its operations. While the Company expects to meet its financial obligations in the near term, it will require additional financing to meet its administrative costs and to continue to explore and develop its mineral properties. There is no assurance that future funding will be available to sufficiently conduct further exploration and development of its mineral properties. As at December 31, 2013 the Company has working capital of \$1,336,285 (2012 - \$4,832,575) and an accumulated deficit of \$15,232,894 (2012 - \$9,747,799).

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and maintain an adequate level of financial resources to discharge its on-going obligations. Management seeks to raise capital, when necessary, to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management's plan will be successful as it is dependent on prevailing capital market conditions and the availability of other financing opportunities.

**2. BASIS OF PREPARATION**

**Approval of the consolidated financial statements**

The consolidated financial statements of Spanish Mountain Gold Ltd. for the year ended December 31, 2013 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 22, 2014.

**Statement of compliance**

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

**Basis of measurement**

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

The accounting policies set out in note 3 have been applied consistently by the Company and its subsidiary for all periods presented.

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**2. BASIS OF PREPARATION (Continued)**

**Use of judgments and estimates**

Apart from making estimates and assumptions as described below, the Company's management makes critical judgments in the process of applying its accounting policies that have significant effect on the amounts recognized in the Company's consolidated financial statements. The significant judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimation uncertainties, that have the most significant effect include, but are not limited to:

- Impairment of property and equipment and mineral properties

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

In respect of costs incurred for its mineral properties, management has determined that exploratory drilling, evaluation, development and related costs incurred, which have been capitalized, are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, economics assessment/studies, accessible facilities and existing permits.

- Mining exploration tax credits

The Company is eligible for refundable tax credits on qualified resource expenditures incurred in the province of British Columbia. Management's judgment is applied in determining whether the resource expenditures are eligible for claiming such credits.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include:

- the recoverability of mining exploration tax credits;
- the recoverability of mineral properties;
- the recoverability of property and equipment;
- the determination of asset retirement and environmental obligations;
- the utilization of deferred income tax assets; and
- the determination of the variables used in the Black-Scholes option pricing model to calculate the fair value of options and warrants.

While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.



**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**3. SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies:

**(a) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Wildrose Resources Ltd. ("Wildrose"). All intercompany transactions and balances have been eliminated on consolidation.

**(b) Cash and cash equivalents**

Cash and cash equivalents comprise cash, bank deposits or highly-liquid temporary investments that are readily convertible into known amounts of cash.

**(c) Mineral properties**

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

Costs accumulated relating to projects that are abandoned are written off in the period in which a decision to discontinue the project is made.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs will be depleted using the unit-of-production method over the estimated life of the ore body based upon recoverable ounces to be mined from estimated proven and probable reserves.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded until the payments are made or received. Proceeds received on the sale or option of the Company's property interest is recorded as a reduction of the mineral property cost. When proceeds received in respect of a property exceed its carrying cost, such excess is recognized in net income (loss).

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Property and equipment**

Property and equipment are recorded at cost and amortized using the declining-balance basis at the following annual rates:

Building	4%
Computer equipment	30%
Furniture and field equipment	20%
Vehicles	30%
Office equipment	20%

Amortization on leasehold improvements is recorded on a straight-line basis over the term of the lease.

Additions during the year are amortized on a pro-rated basis. Amortization on property and equipment used directly on exploration projects is capitalized to mineral properties.

**(e) Impairment of non-current assets**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets (the CGU), where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use) to which the assets belong.

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 (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized in profit or loss for the period, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

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

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) Provision for closure and reclamation**

The Company assesses its mine rehabilitation provision at each reporting date. Changes to estimated future costs are recognized in the balance sheet by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*.

The Company records the present value of estimated costs of legal and constructive obligations required to restore mining operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures; rehabilitating mine; dismantling operating facilities; closure of plant and waste sites; and restoration, reclamation and vegetation of affected areas.

Present value is used where the effect of the time value of money is material. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

**(g) Mining exploration tax recoveries**

The Company recognizes mining exploration tax recoveries in the period in which the related qualifying resource expenditures are incurred. The amount recoverable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

**(h) Non-monetary transactions**

Shares issued for consideration other than cash are valued at the fair value of assets received or services rendered or the quoted market price at the date of issuance, whichever is determined to be the more reliable measure. Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

**(i) Share-based payments**

The Company has a stock option plan that is described in note 8(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as capital stock and the related amount originally recorded in share-based payments reserve is transferred to capital stock. For those unexercised options that expire, the recorded value is transferred to deficit.

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) Loss per share**

Loss per share is calculated by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the period. For all periods presented, the loss available to common shareholders equals the reported loss. The computation of diluted earnings per share is performed by presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of conversions or exercise of options and warrants if they would be anti-dilutive.

**(k) Income taxes**

The Company follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, losses carried forward and other tax deductions. Deferred income tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income (loss) in the period in which the change is enacted or substantively enacted. The amount of deferred income tax assets is limited to the amount of the benefit that is probable that the related tax benefit will be realized.

**(l) Flow-through shares**

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchase the shares.

At the time of closing a financing involving flow-through shares, the Company allocates proceeds received first to common shares based on the market trading price of the common shares at the time the flow-through shares are priced, and any excess is allocated to flow-through premium liability.

At the time of closing a financing involving flow-through units consisting of common shares and warrants, the Company allocates proceeds received as follows:

- Capital stock – the market trading price of the common share;
- Warrant reserve – based on the valuation derived using the Black-Scholes option pricing model; and
- Flow-through premium – any excess, recorded as a liability.

Thereafter, as qualifying resource expenditures are incurred, these costs are capitalized to mineral properties and the flow-through premium, if any, is amortized to profit or loss.

At the end of each reporting period, the Company reviews its tax position and records an adjustment to its deferred tax expense/liability accounts for taxable temporary differences, including those arising from the transfer of tax benefits to investors through flow-through shares. For this adjustment, the Company considers the tax benefits (of qualifying resource expenditures already incurred) to have been effectively transferred, if it has formally renounced those expenditures at any time.

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(l) **Flow-through shares (Continued)**

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this flow-through financing cost is accrued and recorded to profit or loss.

(m) **Financial instruments**

(i) Financial assets

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

*Fair value through profit or loss* ("FVTPL") – 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 balance sheet at fair value with changes in fair value recognized in net income (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 amortized 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 net income (loss).

*Available-for-sale* – Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income as a component of 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 net income (loss).

All financial assets, except for those classified as FVTPL, 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.

Transactions costs related to financial instruments classified as FVTPL are expensed as incurred. All other transaction costs related to financial instruments are recorded as part of the instruments and are amortized using the effective interest rate.

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(m) **Financial instruments (Continued)**

(ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories. The Company's accounting policy for each category is as follows:

*FVTPL* – 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 balance sheet at fair value with changes in fair value recognized in the net income (loss).

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

Other financial liabilities include accounts payable and accrued liabilities.

(iii) Fair value hierarchy

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs, other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 Unobservable inputs that are not based on observable market data.

(n) **New accounting pronouncements**

All of the new and revised standards described below may be early-adopted. The Company does not expect any material impact from adopting these standards.

(i) IFRS 9 *Financial Instruments* (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss

All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) **New accounting pronouncements (Continued)**

(i) IFRS 9 *Financial Instruments* (2009) (Continued)

- The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

(ii) IFRS 9 *Financial Instruments* (2010)

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company has classified its financial instruments as follows:

- Cash and cash equivalents, as FVTPL;
- Deposits for reclamation, as held-to-maturity; and
- Accounts payable and accrued liabilities, as other financial liabilities.

The carrying values of accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of reclamation deposits approximates fair value since amounts held earn interest at market rates.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

(a) **Credit risk**

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations and arises principally from the Company's holdings of cash and cash equivalents. The Company manages credit risk, in respect of cash and cash equivalents by holding these at two major Canadian financial institutions with strong investment-grade ratings by a recognized agency.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as all amounts are held at two major Canadian financial institutions.

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)**

(a) **Credit risk (Continued)**

	December 31, 2013	December 31, 2012
Cash held in bank accounts	\$ 173,592	\$ 1,718,025
Term deposits	200,000	2,000,000
	<b>\$ 373,592</b>	<b>\$ 3,718,025</b>

(b) **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company maintains sufficient current assets at December 31, 2013 in the amount of \$2,727,947 (2012 - \$6,874,680) in order to meet short-term liabilities. At December 31, 2013, the Company had accounts payable and accrued liabilities of \$1,285,498 (2012 - \$2,042,105), which have contractual maturities of 90 days or less.

(c) **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Company is exposed to interest rate risk, foreign currency risk and other price risk as follows:

(i) **Interest rate risk**

The Company's cash and cash equivalents are held in bank accounts and earn interest at variable interest rates. Due to the short-term nature of these financial instruments and the prevailing interest rate environment, fluctuations in market rates do not have a significant impact on estimated fair values or cash flows as of December 31, 2013 and 2012.

(ii) **Foreign currency risk**

The Company's operations are located in Canada with substantially all transactions denominated in Canadian dollars, and accordingly, the Company is not exposed to significant foreign currency risk.

(iii) **Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not significantly exposed to other price risk with respect to its financial instruments, as their fair values and future cash flows are not impacted materially by fluctuations in market prices.



**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**5. CAPITAL MANAGEMENT**

The Company's primary source of funds has been obtained through the issuance of capital stock. The Company does not use other sources of financing that require fixed payments of interest and principal, and is not subject to any externally imposed capital requirements.

The Company defines its capital as all components of shareholders' equity. Capital requirements are determined by the Company's exploration activities on its mineral property interests and administrative overhead. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet strategic goals.

In accordance with its investment policy, the Company periodically invests its capital in liquid investments to obtain returns that are considered reasonable under prevailing market conditions. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Although the Company has been successful at raising funds in the past through the issuance of capital stock, there can be no assurances that it will continue into the future.

There were no changes in the Company's approach to capital management during the year ended December 31, 2013.

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

**6. MINERAL PROPERTIES**

Acquisition and exploration expenditures incurred on mineral properties are as follows:

<b>MINERAL PROPERTIES</b>			
	Spanish Mountain	SHG	Total
Balance, December 31, 2011	\$ 57,480,944	\$ 5,138,086	\$ 62,619,030
Additions during the year			
Acquisition cost	1,314,229	-	1,314,229
Mineral deposit studies	2,381,914	-	2,381,914
Deferred exploration costs			
Assaying	2,149,542	-	2,149,542
First Nations Community Relations	761,236	-	761,236
Camp materials and supplies	361,982	-	361,982
Contract wages	1,013,833	-	1,013,833
Drilling	4,904,424	-	4,904,424
Environmental assessment	2,431,397	-	2,431,397
Equipment rental	92,945	-	92,945
Geological consulting	612,302	7,995	620,297
Land tenure	59,501	2,145	61,646
Maps and reports	287,205	-	287,205
Travel and accommodation	103,758	-	103,758
Amortization	61,033	-	61,033
Total additions during the year	16,535,301	10,140	16,545,441
Impairment of mineral property	-	(839,851)	(839,851)
BC METC receivable (note 9)	(1,565,460)	-	(1,565,460)
Net additions	14,969,841	(829,711)	14,140,130
Balance, December 31, 2012	72,450,785	4,308,375	76,759,160
Additions during the year			
Mineral deposit studies	14,142	-	14,142
Deferred exploration costs			
Assaying	694,410	-	694,410
First Nations Community Relations	101,027	-	101,027
Camp materials and supplies	163,651	-	163,651
Contract wages	787,453	-	787,453
Drilling	777,293	-	777,293
Environmental assessment	16,200	-	16,200
Equipment rental	34,517	-	34,517
Geological consulting	474,976	-	474,976
Land tenure	50,902	4,400	55,302
Maps and reports	28,313	-	28,313
Travel and accommodation	154,952	-	154,952
Amortization	60,234	-	60,234
Total additions during the year	3,358,070	4,400	3,362,470
Impairment of mineral property	-	(4,312,775)	(4,312,775)
BC METC receivable (note 9)	(142,354)	-	(142,354)
Net additions	3,215,716	(4,308,375)	(1,092,659)
Balance, December 31, 2013	\$ 75,666,501	\$ -	\$ 75,666,501

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**6. MINERAL PROPERTIES (Continued)**

**(a) Spanish Mountain Property, British Columbia**

The property is subject to various net smelter returns (“NSR”) at 2.5%. The Company may, at its option, reduce the NSR to 1% or 1.5% dependent on the underlying mineral claims with a maximum aggregate payment of \$1,000,000 to the vendors.

On June 15, 2010, the Company acquired a 100% undivided interest in the Cedar Creek Property, which is contiguous to the Spanish Mountain property. The wholly-owned property is subject to a 2.5% NSR in favour of a third party. The NSR may be purchased by the Company for \$500,000 per 1% NSR. On May 23, 2011, the Company acquired two additional mineral claims that are adjacent to the Cedar Creek property for \$110,000 cash. The claims are subject to a 3% NSR, 2.5% of which may be purchased for \$1,000,000.

On August 21, 2012, the Company completed the acquisition of a 100% undivided interest in an additional group of mineral claims for consideration of \$500,000 in cash and 2,000,000 common shares with a fair value of \$740,000. The property is subject to an aggregate 4% NSR. The Company has the option to reduce the net NSR to 2% by paying a one-time cash payment of \$2,000,000 to the royalty holders.

**(b) SHG, Cariboo Mining Division, British Columbia**

On July 26, 2006, the Company purchased 100% of five mineral properties to the northwest of the Spanish Mountain property in central British Columbia. The vendor retains a 2% NSR, which may be reduced to 1% by the Company for \$1,000,000.

During the year ended December 31, 2012, 30 mineral claims belonging to the Manson Creek area expired without renewal resulting in an impairment loss of \$839,851.

During the year ended December 31, 2013, a total of 67 mineral claims consisting of the SHG properties expired without renewal resulting in an impairment loss of \$4,312,775.

**(c) Title to mineral property interests**

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

**(d) Realization of assets**

The investment in and expenditures on mineral properties comprise a significant portion of the Company’s assets. Realization of the Company’s investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

**6. MINERAL PROPERTIES (Continued)**

**(e) Environmental**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental issues related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

**7. PROPERTY AND EQUIPMENT**

	Land	Building	Computer Equipment	Furniture and Field Equipment	Vehicles	Office Equipment	Leasehold Improvements	Total
<b>Cost</b>								
Balance, December 31, 2011	\$ 127,441	\$ 1,132,543	\$ 146,034	\$ 62,763	\$ 41,536	\$ 17,968	\$ -	\$ 1,528,285
Additions	-	(19,804)	13,334	86,628	5,500	4,049	18,731	108,438
Disposals	-	-	-	-	(12,368)	(847)	-	(13,215)
Balance, December 31, 2012	127,441	1,112,739	159,368	149,391	34,668	21,170	18,731	1,623,508
Additions	-	-	-	4,810	-	-	-	4,810
Disposals	-	-	-	(3,000)	-	-	-	(3,000)
<b>Balance, December 31, 2013</b>	<b>\$ 127,441</b>	<b>\$ 1,112,739</b>	<b>\$ 159,368</b>	<b>\$ 151,201</b>	<b>\$ 34,668</b>	<b>\$ 21,170</b>	<b>\$ 18,731</b>	<b>\$ 1,625,318</b>
<b>Accumulated Amortization</b>								
Balance, December 31, 2011	\$ -	\$ 186,087	\$ 58,017	\$ 22,690	\$ 27,665	\$ 11,547	\$ -	\$ 306,005
Additions	-	37,138	22,195	20,846	3,049	2,012	3,111	88,352
Disposals	-	-	-	-	(5,968)	(275)	-	(6,243)
Balance, December 31, 2012	-	223,225	80,212	43,536	24,746	13,284	3,111	388,114
Additions	-	35,580	25,743	21,234	3,418	1,573	3,116	90,664
Disposals	-	-	-	(749)	-	-	-	(749)
<b>Balance, December 31, 2013</b>	<b>\$ -</b>	<b>\$ 258,805</b>	<b>\$ 105,955</b>	<b>\$ 64,021</b>	<b>\$ 28,164</b>	<b>\$ 14,857</b>	<b>\$ 6,227</b>	<b>\$ 478,029</b>
<b>Carrying Amounts</b>								
At December 31, 2012	\$ 127,441	\$ 889,514	\$ 79,156	\$ 105,855	\$ 9,922	\$ 7,886	\$ 15,620	\$ 1,235,394
<b>At December 31, 2013</b>	<b>\$ 127,441</b>	<b>\$ 853,934</b>	<b>\$ 53,413</b>	<b>\$ 87,180</b>	<b>\$ 6,504</b>	<b>\$ 6,313</b>	<b>\$ 12,504</b>	<b>\$ 1,147,289</b>

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**8. CAPITAL STOCK**

**(a) Authorized**

- (i) Unlimited number of common voting shares without par value
- (ii) Unlimited number of first preferred shares
- (iii) Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

**(b) Private placements**

- (i) On September 27, 2013, the Company completed a private placement and issued 8,719,136 flow-through units ("FT Units") at a price of \$0.12 per FT Unit and 3,974,000 non-flow-through units ("Units"), at a price of \$0.10 per Unit, for total gross proceeds of \$1,443,696. Each FT Unit consists of one flow-through common share of the Company and one-half of one common share purchase warrant of the Company (each whole warrant, a "Warrant"). Each Unit consists of one common share of the Company and one Warrant. Each Warrant entitles the holder to acquire a common share of the Company at a price of \$0.15 for a period of 24 months. The Company allocated \$1,142,382 (before share issue costs) to capital stock, \$83,336 to warrant reserve and \$217,978 to flow-through premium.

Cash share issue costs in the amount of \$208,322 were recorded. The Company also issued 435,294 Units and 534,656 compensation warrants (the "Compensation Warrants") to the placing agent, with each Compensation Warrant exercisable to acquire one common share of the Company at a price of \$0.10 for a period of 24 months. The non-cash share issue cost has an aggregate fair value of \$69,086 (\$39,177 to capital stock and \$29,909 to warrant reserve). The fair value of compensation warrants was estimated to be \$25,556 using the Black-Scholes option pricing model.

- (ii) On December 13, 2012, the Company completed a private placement and issued 8,212,808 FT Units at a price of \$0.33 per FT Unit for gross proceeds of \$2,710,227. Each FT Unit consists of one flow-through common share of the Company and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire an additional common share of the Company at a price of \$0.45 for a period of 18 months. Cash share issue costs in the amount of \$213,180 were recorded. The Company allocated \$2,463,843 (before share issue costs) to capital stock and \$246,384 to warrant reserve.

**(c) Stock options**

The Company has a fixed number stock option plan that reserves a specified number of shares up to a maximum of 20% of the Company's issued shares as at the date of shareholder approval. The maximum number of options that has been approved by the Company's shareholders is 17,401,903. The exercise price of any option granted shall not be less than the fair market value of the shares at the time of the grant. The expiry date for each option, set by the Board of Directors at the time of issue, shall not be more than five years after the grant date. Unless stipulated by the Board of Directors, options

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

**8. CAPITAL STOCK (Continued)**

**(c) Stock options (Continued)**

granted generally vest 25% on date of grant and a further 25% vest every six months and expire after five years.

Changes in the Company's stock options during the years ended December 31 are summarized as follows:

	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	10,120,000	\$ 0.51	9,315,700	\$ 0.66
Granted	-	\$ -	3,350,000	\$ 0.52
Expired	(150,000)	\$ 0.43	(2,098,200)	\$ 1.24
Forfeited	(175,000)	\$ 0.77	(447,500)	\$ 0.39
Outstanding, end of year	9,795,000	\$ 0.50	10,120,000	\$ 0.51

A summary of the Company's stock options outstanding and exercisable as at December 31, 2013 and 2012 is as follows:

Expiry Date	December 31, 2013			December 31, 2012		
	Exercise Price	Number of Options	Number of Options exercisable	Exercise Price	Number of Options	Number of Options exercisable
March 8, 2013	\$ 0.43	-	-	\$ 0.43	150,000	150,000
November 17, 2013	\$ 0.85	-	-	\$ 0.85	100,000	75,000
June 29, 2014	\$ 0.25	900,000	900,000	\$ 0.25	900,000	900,000
October 12, 2014	\$ 0.29	400,000	400,000	\$ 0.29	400,000	400,000
January 5, 2015	\$ 0.28	150,000	150,000	\$ 0.28	150,000	150,000
January 27, 2015	\$ 0.36	400,000	400,000	\$ 0.36	400,000	400,000
February 9, 2015	\$ 0.36	300,000	300,000	\$ 0.36	300,000	300,000
February 17, 2015	\$ 0.37	1,100,000	1,100,000	\$ 0.37	1,100,000	1,100,000
August 23, 2015	\$ 0.45	600,000	600,000	\$ 0.45	600,000	600,000
March 9, 2016	\$ 0.65	1,020,000	1,020,000	\$ 0.65	1,045,000	1,045,000
March 31, 2016	\$ 0.65	300,000	300,000	\$ 0.65	300,000	300,000
September 20, 2016	\$ 0.82	1,300,000	1,300,000	\$ 0.82	1,325,000	993,750
April 11, 2017	\$ 0.44	1,000,000	1,000,000	\$ 0.44	1,000,000	500,000
April 23, 2017	\$ 0.55	2,325,000	2,325,000	\$ 0.55	2,350,000	1,175,000
		9,795,000	9,795,000		10,120,000	8,088,750

The weighted average remaining contractual life of outstanding options as at December 31, 2013 is 2.18 (2012 - 3.11) years.

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

**8. CAPITAL STOCK (Continued)**

**(d) Share purchase warrants**

The Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding	Issued	Expired	Outstanding
		December 31, 2012			December 31, 2013
\$0.42	Feb 9, 2013	14,787,000	-	14,787,000	-
\$0.70	Jul 13, 2013	16,666,660	-	16,666,660	-
\$0.45	Jun 14, 2014	4,106,404	-	-	4,106,404
\$0.15	Sep 27, 2015	-	8,768,862	-	8,768,862
\$0.10	Sep 27, 2015	-	534,656	-	534,656
		35,560,064	9,303,518	31,453,660	13,409,922

Exercise Price	Expiry Date	Outstanding	Issued	Exercised	Expired	Outstanding
		December 31, 2011				December 31, 2012
\$0.23	Sep 28, 2012	11,721,030	-	11,721,030	-	-
\$0.33	Dec 30, 2012	5,670,000	-	-	5,670,000	-
\$0.42	Feb 9, 2013	15,087,000	-	300,000	-	14,787,000
\$0.70	Jul 13, 2013	16,666,660	-	-	-	16,666,660
\$0.45	Jun 14, 2014	-	4,106,404	-	-	4,106,404
		49,144,690	4,106,404	12,021,030	5,670,000	35,560,064

**(e) Share-based payments**

The Company did not grant any stock options during the year ended December 31, 2013. Share-based payments expense of \$230,152 in 2013 pertains to the vesting of previously granted options.

During the year ended December 31, 2012, the Company granted 3,350,000 stock options to certain employees, officers and directors, which have a weighted average exercise price of \$0.52 per option, and an aggregate fair value of \$1,239,835 at the date of grant.

The fair value of stock options granted is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2013	2012
Risk-free interest rate	N/A	1.66%
Expected dividend yield	N/A	-
Expected stock price volatility	N/A	96.00%
Expected life in years	N/A	5.00

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

**8. CAPITAL STOCK (Continued)**

**(e) Share-based payments (Continued)**

The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has not paid and does not anticipate paying dividends on its common stock. Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 9% in determining the expense recorded in the accompanying consolidated statements of operations.

**9. INCOME TAXES**

The Company's combined statutory tax rate is currently at 25.75% reflecting a combined federal corporate tax rate of 15% and BC corporate tax rate of 11%.

The reconciliation of income tax computed at the statutory tax rate of 25.75% (2012 - 25.0%) to income tax recovery (expense) is:

	<b>2013</b>	<b>2012</b>
Loss before tax	\$ 6,036,414	\$ 3,823,783
Statutory income tax rate	25.75%	25.0%
Expected income tax recovery	1,554,377	955,946
Items non-deductible for income tax purposes	(59,757)	(289,319)
Impact of temporary differences for mineral properties	(823,167)	(714,096)
Unused tax losses and tax offsets not recognized in tax asset	(330,405)	(234,342)
Recovery of flow-through premium	111,814	-
Deferred income tax recovery (expense)	\$ 452,862	\$ (281,811)

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2013 and 2012, are presented below:

	<b>2013</b>	<b>2012</b>
Deferred income tax assets		
Property and equipment	\$ 143,267	\$ 115,278
Non-refundable mining or exploration income tax credit	1,201,902	2,163,884
Share issue costs	162,766	165,576
Non-capital loss carried forward	5,064,103	4,494,566
	6,572,038	6,939,304
Deferred income tax liabilities		
Mineral properties	(9,854,223)	(10,562,537)
Deferred income tax liability, net	\$ (3,282,185)	\$ (3,623,233)



**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

**9. INCOME TAXES (Continued)**

The Company recognizes tax benefits on losses or other deductible amounts where it is probable the Company will generate taxable income to utilize its deferred tax assets.

As at December 31, 2013, the Company has unused tax losses for which no deferred tax asset is recognized amounting to approximately \$1,432,327 (2012 - \$937,000).

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined under Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances that are allotted for such expenditure, but have not yet been spent.

In connection with the flow-through private placements completed on September 27, 2013 and December 13, 2012, the Company has an obligation to incur qualified expenditures of \$1,046,296 by December 31, 2014 and \$2,710,227 by December 31, 2013, respectively. On January 31, 2013, the Company renounced exploration expenditures of \$2,710,227 with an effective date of December 31, 2012 and recorded a corresponding deferred tax liability of \$704,659. On February 12, 2014, the Company renounced exploration expenditures of \$1,046,296 with an effective date of December 31, 2013 and recorded a corresponding deferred tax liability of \$269,421. As of December 31, 2013, the Company still has an obligation to spend \$509,589 for exploration activities.

The Company qualifies for BC mining exploration tax credits ("BC METC"), as it has incurred qualified mineral exploration expenditures for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred. As at December 31 2013, the Company has a BC METC receivable of \$2,195,149 (2012 - \$2,764,651) in connection with exploration expenditures incurred during 2012. The filing for the BC METC is subject to the assessment process, which may include an audit by the taxation authorities. The amount ultimately recoverable may be different from the amount claimed.

As at December 31, 2013, the Company has Canadian non-capital losses of \$20,910,999 that may be applied to reduce future Canadian taxable income purposes, expiring as follows:

	<b>Spanish Mountain</b>	<b>Wildrose</b>	<b>Total</b>
Non-capital losses, expiring as follows:			
2014	\$ 155,289	\$ -	\$ 155,289
2015	614,077	168,000	782,077
2026	723,138	15,622	738,760
2027	861,641	-	861,641
2028	1,723,029	136,921	1,859,950
2029	1,410,811	55,965	1,466,776
2030	3,606,202	47,730	3,653,932
2031	4,492,124	25,888	4,518,012
2032	2,298,986	1,000	2,299,986
2033	4,573,209	1,367	4,574,576
	<b>\$ 20,458,506</b>	<b>\$ 452,493</b>	<b>\$ 20,910,999</b>

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**10. RELATED PARTY TRANSACTIONS**

- (a) The Company obtains technical and strategic advice from a consulting firm, of which a director is a shareholder. During the year ended December 31, 2013, the Company incurred \$220,000 (2012 - \$216,000) in consulting fees. Accounts payable and accrued liabilities as at December 31, 2013 includes \$21,174 (2012 - \$20,265) owed to the consulting firm.
- (b) The Company has retained a UK-based company to provide marketing and administrative support in connection with activities associated with its European shareholders. A director of the Company is also a director and major shareholder of the UK-based firm. For the year ended December 31, 2013, the Company incurred fees of \$200,685 (2012 - \$238,703) for services rendered. Accounts payable and accrued liabilities as at December 31, 2013 includes \$22,034 (2012 - \$60,090) owed to the UK-based company.
- (c) Key management comprises directors and executive officers of the Company. Certain executive officers are entitled to termination benefits of up to two years' gross salary totalling approximately \$960,000 in the event of a change of control in the Company's ownership. The Company has no post-employment benefits and other long-term employee benefits.

Compensation of key management personnel for the years ended December 31, 2013 and 2012 is summarized as follows:

	<b>2013</b>	<b>2012</b>
Salaries and wages / consulting fees	\$ 1,162,719	\$ 1,131,690
Share-based payments	191,643	1,111,380
	<b>\$ 1,354,362</b>	<b>\$ 2,243,070</b>

During the year ended December 31, 2013, termination benefits totaling \$65,000 (2012 - \$nil) were paid to key management personnel.

- (d) Accounts payable and accrued liabilities as at December 31, 2013 includes \$79,027 (2012 - \$93,350) owed to key management for reimbursement of expenses and consulting fees outstanding.

All amounts due to related parties have repayment terms similar to the Company's other accounts payable. Interest is not charged on outstanding balances.

**11. SEGMENTED INFORMATION**

The Company has one operating segment, mineral exploration, and all of its long-term assets are located in Canada.

**SPANISH MOUNTAIN GOLD LTD.**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**For the Years Ended December 31, 2013 and 2012**

---

**12. COMMITMENTS**

The Company entered into a lease agreement for office premises that commenced June 1, 2012 and expires May 31, 2017. The total lease payment pursuant to the agreement is \$779,844, of which the remaining balance at December 31, 2013 is \$555,885.

The Company's minimum combined lease payments for office premises and equipment for the next four years are as follows:

---

2014	\$ 193,814
2015	179,601
2016	175,808
2017	69,186
	<hr/>
	\$ 618,409

---