

**HIGHWAY 50 GOLD CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**Canadian Dollars**

**DECEMBER 31, 2015**

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

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Highway 50 Gold Corp.

We have audited the accompanying consolidated financial statements of Highway 50 Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of loss and comprehensive loss, 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, these consolidated financial statements present fairly, in all material respects, the financial position of Highway 50 Gold Corp. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

March 31, 2016

**HIGHWAY 50 GOLD CORP.**  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
EXPRESSED IN CANADIAN DOLLARS  
AT DECEMBER 31

	2015	2014
<b>ASSETS</b>		
<b>Current</b>		
Cash (Note 4)	\$ 1,042,464	\$ 1,913,978
Receivables (Note 5)	4,729	10,837
Due from related party (Note 12)	-	36,052
Prepaid expenses (Note 6)	4,635	-
	<u>1,051,828</u>	<u>1,960,867</u>
<b>Equipment</b> (Note 9)	23,309	32,331
<b>Reclamation bonds</b> (Note 7)	122,155	99,493
<b>Exploration and evaluation assets</b> (Note 8)	<u>2,604,866</u>	<u>2,088,675</u>
	<u>\$ 3,802,158</u>	<u>\$ 4,181,366</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 10)	\$ 4,174	\$ 140,559
Due to related parties (Note 12)	-	2,833
	<u>4,174</u>	<u>143,392</u>
<b>Shareholders' equity</b>		
Capital stock (Note 11)	5,928,409	5,928,409
Share compensation reserve (Note 11)	1,126,439	850,361
Deficit	<u>(3,256,864)</u>	<u>(2,740,796)</u>
	<u>3,797,984</u>	<u>4,037,974</u>
	<u>\$ 3,802,158</u>	<u>\$ 4,181,366</u>

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

**Basis of preparation** (Note 2)

**Subsequent event** (Note 17)

**On behalf of the Board:**

“Gordon P. Leask”

Director

“Megan Cameron-Jones”

Director

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

**HIGHWAY 50 GOLD CORP.**

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS  
EXPRESSED IN CANADIAN DOLLARS  
YEARS ENDED DECEMBER 31

	2015	2014
<b>EXPENSES</b>		
Accounting and audit	\$ 15,300	\$ 15,300
Amortization (Note 9)	9,022	5,466
Bank charges and interest	1,202	783
Consulting fees	266,301	233,377
Stock-based compensation (Note 11)	276,078	164,441
Investor relations and shareholder information	4,219	10,874
Legal	12,011	13,720
Office and administration	122,547	120,118
Rent	37,642	24,065
Transfer agent and listing fees	15,309	15,367
	<u>(759,631)</u>	<u>(603,511)</u>
Finance income	4,816	4,177
Gain on foreign exchange	238,747	90,551
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (516,068)</b>	<b>\$ (508,783)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding, basic and diluted</b>	<b>26,697,570</b>	<b>25,577,054</b>

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

**HIGHWAY 50 GOLD CORP.**  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
EXPRESSED IN CANADIAN DOLLARS  
YEARS ENDED DECEMBER 31

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (516,068)	\$ (508,783)
Items not affecting cash:		
Amortization	9,022	5,466
Stock-based compensation	276,078	164,441
Foreign exchange	(19,572)	(4,022)
Changes in non-cash working capital items:		
Decrease (increase) in receivables	42,160	(44,963)
Decrease (increase) in prepaid expenses	(4,635)	21,320
Decrease in accounts payable and accrued liabilities	(845)	(33,609)
Decrease in due to related parties	(2,833)	(332,511)
Net cash used in operating activities	<u>(216,693)</u>	<u>(732,661)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares	-	2,599,999
Share issue costs	-	(78,517)
Net cash provided by financing activities	<u>-</u>	<u>2,521,482</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of reclamation bonds	(3,090)	(51,160)
Acquisition of equipment	-	(35,958)
Acquisition of exploration and evaluation assets	<u>(651,731)</u>	<u>(311,785)</u>
Net cash used in investing activities	<u>(654,821)</u>	<u>(398,903)</u>
<b>Increase (decrease) in cash for the year</b>	<b>(871,514)</b>	<b>1,389,918</b>
<b>Cash, beginning of year</b>	<u>1,913,978</u>	<u>524,060</u>
<b>Cash, end of year</b>	<u>\$ 1,042,464</u>	<u>\$ 1,913,978</u>

**Supplemental disclosures with respect to cash flows (Note 13)**

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

**HIGHWAY 50 GOLD CORP.**

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

EXPRESSED IN CANADIAN DOLLARS

YEARS ENDED DECEMBER 31

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	Number of Shares	Capital Stock	Share Compensation Reserve	Deficit	Total
Balance, December 31, 2013	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	-	-	-	-
Finders' options	-	(17,261)	17,261	-	-
Private placement expense	-	(78,517)	-	-	(78,517)
Stock-based compensation	-	-	164,441	-	164,441
Net loss for the year	-	-	-	(508,783)	(508,783)
Balance, December 31, 2014	26,697,570	\$ 5,928,409	\$ 850,361	\$ (2,740,796)	\$ 4,037,974
Stock-based compensation	-	-	276,078	-	276,078
Net loss for the year	-	-	-	(516,068)	(516,068)
Balance, December 31, 2015	26,697,570	\$ 5,928,409	\$ 1,126,439	\$ (3,256,864)	\$ 3,797,984

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

**HIGHWAY 50 GOLD CORP.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPRESSED IN CANADIAN DOLLARS

DECEMBER 31, 2015

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Highway 50 Gold Corp. (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 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 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. Management is of the opinion that the Company has sufficient working capital to fund operations for the next twelve months following the date of the audit report.

As at December 31, 2015, the Company has working capital of \$1,047,654.

These consolidated financial statements were authorized by the board of directors of the Company on March 31, 2016.

**2. BASIS OF PREPARATION**

These consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The 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 consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The accounting policies set out in Note 3 have been applied consistently to all periods presented in these consolidated financial statements.

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

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:



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

*Carrying value and recoverability of exploration and evaluation assets*

The carrying amount of Company's exploration and evaluation assets 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 factor 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 properties.

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 deferred income tax provisions or recoveries could be affected.

**Basis of consolidation**

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company (Note 12). 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 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 the entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

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

Transactions in currencies other than the entities' functional currency are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the entity that are denominated in foreign currencies are translated at the rate of exchange at the consolidated statement 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 loss and comprehensive loss.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**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 and 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 and comprehensive 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 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 and 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 and 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.

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

The Company has classified its cash and cash equivalents as fair value through profit and loss. The Company's receivables and due from related party 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 pre-exploration are expensed as incurred while costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property until the commencement of commercial production. Each of the Company's exploration and evaluation assets 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 exploration and evaluation assets. 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.

**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 exploration and evaluation assets 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 exploration and evaluation assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as exploration and evaluation assets.

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

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 exploration and evaluation 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 statements of loss and comprehensive loss for the year.

The Company does not have a reclamation obligation at year end.

**Equipment**

Equipment is stated at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of operations and comprehensive loss during the period in which they are incurred.

The major categories of equipment are amortized as follows:

Vehicles - 30% declining balance basis  
Office furnishings - 20% declining balance basis

The Company allocates the amount initially recognized in respect of an item of equipment to its significant parts and amortizes separately each such part. Residual values, method of amortization and useful lives are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statements of operations and comprehensive loss.

**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.

**Stock-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.

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

**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.

**Adoption of New Standards and Interpretations, and Recent Accounting Pronouncements**

Effective January 1, 2015 the following standard was adopted but has had no material impact on the financial statements:

- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2015.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2016. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.

**4. CASH**

	2015	2014
Cash on deposit	\$ 1,042,464	\$ 1,913,978
	\$ 1,042,464	\$ 1,913,978

**HIGHWAY 50 GOLD CORP.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
EXPRESSED IN CANADIAN DOLLARS  
DECEMBER 31, 2015

**5. RECEIVABLES**

The Company's receivables arise from goods and services tax ("GST") receivable from Canadian government taxation authorities and advances receivable from third parties. These are broken down as follows:

	2015		2014	
GST receivable	\$	4,075	\$	10,837
Advances receivable		654		-
	\$	4,729	\$	10,837

**6. PREPAID EXPENSES**

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

	2015		2014	
Vendor pre-payment	\$	4,635	\$	-
	\$	4,635	\$	-

**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 and Porter Canyon properties (Note 8). During the year ended December 31, 2015, the Company posted an additional US\$2,500 (2014 - \$44,100) relating to the Porter Canyon property.

**8. EXPLORATION AND EVALUATION ASSETS**

	Porter Canyon, Nevada USA		Golden Brew, Nevada USA		Other, Nevada USA		Total
Balance, December 31, 2014	\$	940,479	\$	1,040,058	\$	108,138	\$ 2,088,675
Additions:							
Assays		39,999		-		-	39,999
Field operations		17,858		3,015		-	20,873
Geology		24,671		-		-	24,671
Geophysics		43,939		-		-	43,939
Roads and site preparation		63,842		-		-	63,842
Drilling		300,024		-		-	300,024
Property payments		15,444		-		7,399	22,843
Balance, December 31, 2015	\$	1,446,256	\$	1,043,073	\$	115,537	\$ 2,604,866

**HIGHWAY 50 GOLD CORP.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPRESSED IN CANADIAN DOLLARS

DECEMBER 31, 2015

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

	Porter Canyon, Nevada USA	Golden Brew, Nevada USA	Other, Nevada USA	Total
Balance, December 31, 2013	\$ 524,994	\$ 1,040,058	\$ 100,446	\$ 1,665,498
Additions:				
Assays	27,979	-	-	27,979
Field operations	71,501	-	1,430	72,931
Geology	23,701	-	-	23,701
Roads and site preparation	52,451	-	-	52,451
Drilling	203,391	-	-	203,391
Property payments	36,462	-	6,262	42,724
Balance, December 31, 2014	\$ 940,479	\$ 1,040,058	\$ 108,138	\$ 2,088,675

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its properties is in good standing. The exploration and evaluation assets in which the Company has committed to earn an interest are located in the United States.

**Golden Brew Property, Battle Mountain Mining District, Nevada**

During the year ended December 31, 2010, the Company executed a mining lease agreement with Genesis Gold Corporation ("Genesis") on the Golden Brew claims ("Golden Brew Claims") located in Nevada, USA (the "Genesis Agreement"). The terms of the Genesis Agreement 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 Claims 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. During the prior year, the Company negotiated an amendment to the Genesis Agreement whereby the lease payments due January 5, 2014 and 2015 were reduced from US\$50,000 to US\$20,000. During the current year, the Company negotiated an amendment to the Genesis Agreement whereby the lease payments due January 5, 2016 and 2017 were reduced from US\$20,000 to US\$10,000.

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

	Annual Lease Payments
On January 5, 2010 (paid)	US\$ 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 (paid)	20,000
On or before January 5, 2016 (paid)	10,000
On or before January 5, 2017	10,000
On or before January 5, 2018 through January 5, 2019	50,000
On or before January 5, 2020 to January 5, 2025	75,000

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

In 2014, the Company entered into a definitive Option Agreement with Regulus Resources Inc. ("Regulus"), a related party, 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 subject to a Force Majeure situation described in Note 17 Subsequent Event. Upon earn-in the parties will form a joint venture on a 50/50 basis.

**Porter Canyon Property, Lander County, Nevada**

During the year ended December 31, 2011, the Company acquired the Porter Canyon claims by staking.

**9. EQUIPMENT**

	Vehicles	Office Furnishings	Total
<b>Cost</b>			
Balance December 31, 2013	\$ -	\$ 2,043	\$ 2,043
Additions	<u>30,062</u>	<u>5,896</u>	<u>35,958</u>
Balance, December 31, 2014	\$ 30,062	\$ 7,939	\$ 38,001
Additions	<u>-</u>	<u>-</u>	<u>-</u>
Balance, December 31, 2015	\$ 30,062	\$ 7,939	\$ 38,001
<b>Accumulated amortization</b>			
Balance, December 31, 2013	\$ -	\$ 204	\$ 204
Amortization	<u>4,509</u>	<u>957</u>	<u>5,466</u>
Balance, December 31, 2014	\$ 4,509	\$ 1,161	\$ 5,670
Amortization	<u>7,666</u>	<u>1,356</u>	<u>9,022</u>
Balance, December 31, 2015	\$ 12,175	\$ 2,517	\$ 14,692
<b>Carrying amounts</b>			
As at December 31, 2014	\$ 25,553	\$ 6,778	\$ 32,331
As at December 31, 2015	\$ 17,887	\$ 5,422	\$ 23,309

**10. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES**

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

	2015	2014
Trade payables	\$ <u>4,174</u>	\$ <u>140,559</u>
	\$ 4,174	\$ 140,559

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



**11. CAPITAL STOCK AND SHARE COMPENSATION RESERVE**

**Authorized**

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

In February 2015, the Company extended the terms of 7,027,025 common share purchase warrants at \$0.60 (the "Warrants") issued pursuant to a non-brokered private placement which closed in March 2014. No Warrants issued under the Private Placement have been exercised to date. The TSX Venture Exchange agreed to extend the terms of the Warrants for an additional year to February 28, 2016 and subsequently agreed to extend the terms of the Warrants for an additional year to February 28, 2017.

During the year ended December 31, 2014, the Company completed a non-brokered private placement raising gross proceeds of \$2,599,999 by issuing 7,027,025 Units at \$0.37 each. Each Unit consists of one common share and one common share purchase warrant exercisable at \$0.60 for one year. The Company incurred cash share issuance costs of \$78,517. In connection with the financing, the Company issued 24,500 Finder's Units. Each Finder's Unit consists of one common share and one common share purchase warrant exercisable at \$0.60 for one year. The Company also issued 128,100 Finder's Options which are exercisable at \$0.45 each for one year. The Finder's Options were valued at \$17,261 under the Black-Scholes valuation model using a volatility of 83.92%, an expected life of 1 year, a risk-free rate of 1.02% and a 0.00% dividend rate.

**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.

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2013	1,850,000	\$ 0.42
Options granted	100,000	0.48
Options granted	620,000	0.41
Options expired	<u>(100,000)</u>	0.48
Balance, December 31, 2014	2,470,000	0.42
Options granted	1,375,000	0.40
Options expired	(1,275,000)	0.35
Options expired	(100,000)	0.48
Options expired	(375,000)	0.61
Options cancelled	<u>(100,000)</u>	0.61
Balance, December 31, 2015	1,995,000	\$ 0.40
Number of options currently exercisable	1,995,000	\$ 0.40
Weighted average fair value of options granted during the year:		\$ 0.20

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

At December 31, 2015, the following incentive stock options were outstanding to directors, officers and employees:

Number of Options Outstanding	Exercise Price	Expiry Date	Number of Options Exercisable
620,000	\$ 0.41	October 14, 2019	620,000
<u>1,375,000</u>	0.40	February 3, 2020	<u>1,375,000</u>
1,995,000			1,995,000

**Stock-based compensation**

The Company recognizes compensation expense for all stock options and warrants granted using the fair value-based method of accounting. During the year ended December 31, 2015, the Company recognized \$276,078 (December 31, 2014 - \$164,441) in stock-based compensation expense with respect to options vested during the year. The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year ended December 31, 2015:

	2015	2014
Expected forfeiture rate	0%	0%
Risk-free interest rate	0.64%	1.02 – 1.31%
Expected life of options	5 Years	1 - 5 Years
Annualized volatility	68%	66.52 – 83.92%
Dividend	0%	0%
Weighted average fair value per option	\$0.20	\$0.21

**Warrants**

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

	Number of Warrants	Expiry Date	Weighted Average Exercise Price
Balance, December 31, 2013	-		
Warrants granted	7,027,025	Feb 28, 2016 <sup>(1)(2)</sup>	\$ 0.60
Finders' Units granted	24,500	Feb 28, 2015	0.60
Finders' Options granted	128,100	Feb 28, 2015	0.45
Balance, December 31, 2014	7,179,625		\$ 0.60
Finders' Units expired	(24,500)		0.60
Finders' Options expired	(128,100)		0.45
Balance, December 31, 2015	7,027,025		\$ 0.60

(1) Expiry date extended to Feb 28, 2016.

(2) Subsequent to the year ended December 31, 2015, the expiry date was extended to Feb 28, 2017.

**12. 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) 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 year ended December 31, 2015, 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 year ended December 31, 2015, Eagle Putt was paid \$120,000 (year ended December 31, 2014 - \$104,000). Amounts paid to Eagle Putt are classified as consulting fees in the consolidated statements of operations and comprehensive loss.

At December 31, 2015, the Company owed \$Nil (December 31, 2014 - \$948) 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 year ended December 31, 2015, Rangefront was paid \$120,000 (year ended December 31, 2014 - \$104,000). Amounts paid to Rangefront are classified as consulting fees in the consolidated statements of operations and comprehensive loss.

At December 31, 2015, the Company owed \$Nil (December 31, 2014 - \$1,885) to Rangefront.

- 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 year ended December 31, 2015, Cerro Rico was paid \$24,275 (year ended December 31, 2014 - \$24,178) for management 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 \$64,128 (year ended December 31, 2014 - \$66,136) to Cerro Rico for expenses classified in the consolidated statements of operations and comprehensive loss as office and administrative.

At December 31, 2015, the Company owed \$Nil (December 31, 2014 - \$Nil) to Cerro Rico.

- d) During the prior year, the Company entered into an agreement with Regulus Resources Inc., a company with common directors, as disclosed in Note 8.

Amounts payable to related parties have no specific terms of repayment, are unsecured, and have no interest rate.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties. 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.

The remuneration of directors and other members of key management personnel during the year ended December 31, 2015 and 2014 are as follows:

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

	Salaries	Other Payments	Share-based Benefits	Total
December 31, 2015				
Chief Executive Officer	\$ -	\$ 120,000	\$ 80,314	\$ 200,314
Chief Financial Officer	-	-	10,039	10,039
Executive directors	-	144,275	135,529	279,804
Non-executive directors	-	-	40,157	40,157
	\$ -	\$ 264,275	\$ 266,039	\$ 530,314
December 31, 2014				
Chief Executive Officer	\$ -	\$ 104,000	\$ 37,869	\$ 141,869
Chief Financial Officer	-	-	-	-
Executive directors	-	129,377	63,114	192,491
Non-executive directors	-	-	50,492	50,492
	\$ -	\$ 233,377	\$ 151,475	\$ 384,852

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

The significant non-cash transaction for the year ended December 31, 2015 included \$4,123 (2014 - \$139,663) in accounts payable and accrued liabilities related to exploration and evaluation assets.

For the year ended December 31	2015	2014
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

**14. SEGMENT INFORMATION**

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

	Total Assets	Equipment	Exploration and Evaluation Assets	Reclamation Bonds	Other Assets
December 31, 2015					
Canada	\$ 1,057,250	\$ 5,422	\$ -	\$ -	\$ 1,051,828
United States	<u>2,744,908</u>	<u>17,887</u>	<u>2,604,866</u>	<u>122,155</u>	<u>-</u>
	\$ 3,802,158	\$ 23,309	\$ 2,604,866	\$ 122,155	\$ 1,051,828
December 31, 2014					
Canada	\$ 1,967,645	\$ 6,778	\$ -	\$ -	\$ 1,960,867
United States	<u>2,213,721</u>	<u>25,553</u>	<u>2,088,675</u>	<u>99,493</u>	<u>-</u>
	\$ 4,181,366	\$ 32,331	\$ 2,088,675	\$ 99,493	\$ 1,960,867

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**15. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Earnings (loss) for the year	\$ (516,068)	\$ (508,783)
Expected income tax (recovery)	(134,000)	(132,000)
Change in statutory, foreign tax, foreign exchange rates and other	(2,000)	(381,000)
Permanent difference	72,000	43,000
Share issue cost	-	(23,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(17,000)	382,000
Change in unrecognized deductible temporary differences	81,000	111,000
Income tax expense (recovery)	\$ -	\$ -

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

	2015	Expiry Date Range	2014	Expiry Date Range
Temporary differences				
Property and equipment	\$ 15,000	No expiry date	\$ 15,000	No expiry date
Share issue costs	53,000	2036 to 2038	90,000	2035 to 2038
Non-capital losses available for future period	2,757,000	2026 to 2035	2,298,000	2015 to 2034

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

**16. 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, due from related party, 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, 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.

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

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

The Company's receivables consist mainly of tax credits due from the government of Canada and advances receivable from third parties. 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 December 31, 2015, the Company had a cash balance of \$1,042,464 to settle current liabilities of \$4,174. 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. The interest earned on the cash balances approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

## b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash 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 comprehensive loss for the period by approximately \$102,000.

## c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, individual equity movements, and the stock market 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.

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.

**17. SUBSEQUENT EVENT**

Pursuant to the Regulus Option Agreement on the Golden Brew Property, Regulus has invoked the Force Majeure clause with respect to Regulus' obligation to complete exploration expenditures totalling US\$500,000 in Year 1 (the "Firm Commitment") as a result of unavoidable drilling permitting delays on the property. The Firm Commitment will be due 120 days after the Company receives the final permit allowing the parties to commence drilling. Each subsequent annual exploration expenditure due date will be moved accordingly.